Northwest Territories

Backgrounder

R(15)04021094 NWT Budget
YELLOWKNIFE (February 10)

The second Budget of the Fifteenth Assembly focuses on sound long-term fiscal planning. Increased revenues have significantly improved the GNWT's fiscal position. However, revenues beyond 2005-06 are uncertain and the GNWT must exercise fiscal prudence. The new Fiscal Responsibility Policy introduced in this Budget sets the guidelines for GNWT fiscal planning.

Economic and Fiscal Review

- NWT economic growth has been unprecedented over the last five years and is expected to remain strong, driven largely by diamond mining. Real GDP grew over 62 per cent from 1999 to 2003 and another 10.6 per cent growth is expected in 2004.
- Final results for 2003-04 show an operating deficit of $65 million, $13 million lower than estimated last March.
- Increased federal funding under the Formula Financing Grant and health care, together with expenditure restraint, have turned the forecast $46 million deficit for 2004-05 into an expected $44 million operating surplus.
- The 2005-06 Budget forecasts an operating surplus of $49 million. 2005-06 operating expenditures are budgeted to grow by less than one per cent from 2004-05. Capital investment in 2005-06 will be $106 million.
- Over the medium-term, Government debt is not expected to exceed the $300 million borrowing limit imposed by the federal government. However, uncertainty over fiscal arrangements with the federal government beyond 2005-06 and a $290 million Corporate Income Tax repayment to be made in 2006-07 mean that the Government must continue to exercise fiscal prudence.

Fiscal Strategy

- The cornerstone of the GNWT's fiscal strategy is the new Fiscal Responsibility Policy, which establishes the guidelines for how much the Government may borrow, what it should borrow for, and how it will be held accountable for its borrowing decisions.
- The Fiscal Responsibility Policy requires that at least 50 per cent of annual capital infrastructure investment must be financed by the cash generated from operating surpluses. Therefore, the Policy requires that the GNWT exercise fiscal prudence in order to achieve these operating surpluses.
- As part of the fiscal strategy, Moody's Investors Service, a respected international rating agency, was asked to undertake an independent credit rating for the GNWT. On February 9, 2005, Moody's released a high grade Aa3 credit rating for the GNWT. This rating represents

an independent assessment of the strength of the NWT economy and the GNWT's fiscal position.

Expenditure Measures

- Total budgeted expenditures will grow to $974 million in 2005-06; including $20 million to meet increased costs and demands of existing programs and services and $16 million in new initiatives. However, expenditure increases are largely offset by $26 million in expenditure reductions. Uncertainty in some expenditure areas such as health and public sector wages have required the establishment of a larger than usual supplementary appropriation reserve.
- New expenditure measures focus on priorities identified in the goals of the 15th Legislative Assembly's *Strategic Plan*.

Strong Northern Voice and Identity

- $355,000 for support of initiatives such as the Northern Strategy.
- $1.8 million for continuation of devolution and resource revenue sharing negotiations, including a $500,000 contribution to the Aboriginal Summit for their continued participation.

Healthy, Educated People Living in Safe Communities

- Over $695 million of the GNWT's operating expenditures are targeted to support social and community programs.
- $12 million in additional funds for existing and enhanced health programs and services, including $895,000 in new funding for eight Community Demonstration projects as part of the Government's Response to the Social Agenda.
- $3 million in this Budget for new initiatives in the NWT education system including:
  - $742,000 for Alberta Learning Services to use, score and report on results of Grade 12 and Alberta achievement tests taken by our students;
  - $727,000 to support continued development and implementation of early childhood Aboriginal languages immersion programs; and
  - $622,000 to implement the final year of the Bachelor of Science in Nursing program at Aurora College.
- Four year Aboriginal Skills and Employment Partnership (ASEP) projects in support of oil and gas and mining will train over 800 Northerners for jobs in these sectors.
- $1.4 million for ten new RCMP positions, including six positions assigned to the Rae, Tuktoyaktuk, Fort Providence and Yellowknife detachments, a three-person traffic unit with two officers in Hay River and one officer in Yellowknife, and a new dog and handler unit located in Yellowknife but serving the entire territory.
- $400,000 for the on-going operations of the new family law clinic.
- Over $200,000 has been allocated for the continued public education and training on the *Protection Against Family Violence Act*.

Well-Governed, Sustainable Communities

- The GNWT has introduced a New Deal for Communities designed to provide all NWT communities with the tools and resources they need to operate effectively. In the 2007-08 fiscal year, most community governments will become municipal taxation authorities.
- Implementation of an interim grant program for 2005-06 to flow property tax revenue to most General Taxation Area communities that do not currently raise their own property tax revenues. This program will continue until community governments are granted full taxation authority on January 1, 2008.
- As part of the New Deal, the GNWT has established the Community Public Infrastructure plan to provide a funding base for infrastructure development in NWT communities. The Infrastructure Acquisition Plan will include an additional $13 million in 2006-07, $15 million in 2007-08 and $17 million in 2008-09 for General Taxation Area communities. To help these communities with the planning for this work, $1 million is provided in 2005-06. The Plan also includes an additional $3 million annually starting in 2006-07 for tax-based communities.

Diversified Economy

- $500,000 for a partnership program with the private sector to promote Northwest Territories tourism at Expo 2005 in Aichi, Japan.
- $32 million in reconstruction projects on our highway system, including the Mackenzie Valley Winter Road, are scheduled for 2005-06 using the 50/50 federal cost-sharing contributions of the Canada Strategic Infrastructure Fund.
- Additional funding to prepare for the Mackenzie Gas Project includes:
  - $200,000 for additional resources required to review prospecting permits for potential impacts on heritage areas due to increased land use activity;
  - $110,000 for additional funding to the Aurora Institute for increased licensing of research applications; and
  - $120,000 for the Bureau of Statistics to provide support in assessing cumulative social and economic impacts of resource development.

Care and Protection of the Natural Environment

- $1.5 million will be invested over five years to fund the implementation of the *NWT Protected Areas Strategy Action Plan*.
- $275,000 in new funding for the Bathurst Caribou monitoring program to ensure that any impacts of increased human activity on the herd can be identified and mitigated.
- $390,000 to address immediate environmental assessment and review requirements.
- $250,000 for two new regional Environmental Protection Officer positions in Yellowknife and Inuvik to address regional impacts from development.

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Infrastructure Investment

- The Fiscal Responsibility Policy requires that at least 50 per cent of GNWT capital investments must be funded by operating surpluses. Budgeted operating surpluses over the three-year planning period permit capital investments of $116 million in 2005-06.
- The Government's three-year capital investment plan proposes to invest:
  - $78 million for school replacement and renovation projects;
  - $48 million for renovations and upgrades to our hospitals and health centres;
  - $37.2 million for continued improvements to community water and sewer systems;
  - $22.7 million for replacement, upgrades and capacity increases for community tank farms; and
  - $9.4 million for new medical equipment for hospitals and health centres.

Revenue Initiatives

- The Government will continue to work with the federal government and Expert Panel on Equalization and Territorial Formula Financing to ensure that new Formula Financing arrangements for 2006-07 continue to meet the GNWT's needs.
- The Government will continue to work with its Aboriginal Summit partners to get a resource revenue sharing and resource devolution agreement with the federal government.
- The Risk Capital Investment Tax Credit that expired in 2003 will be re-introduced in 2005, with up to $2 million in tax credits available annually for the next 3 years.

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Budget ADDRESS

NORTHWEST TERRITORIES

2005 - 2006

Northwest Territories

Budget

ADDRESS

NORTHWEST TERRITORIES 2005 - 2006

The Honourable Floyd K. Roland
Minister of Finance

Third Session
of the
Fifteenth Legislative Assembly
of the
Northwest Territories

February 10, 2005

INTRODUCTION

Mr. Speaker, Members of the Legislative Assembly, people of the Northwest Territories, as I deliver my second Budget Address, I am pleased to advise this House that the fiscal circumstances of the Government of the Northwest Territories are much more positive than when this Legislature met last year.

A year ago, as a new government, we faced serious and pressing challenges. We faced significant pressures on government programs and services, resulting partially from the impacts of resource development and economic growth. While this growth provided much needed jobs and investment, it also put significant strains on our infrastructure, on our communities, and on our social fabric in general. At that time, we did not have the fiscal flexibility to make the strategic investments to respond to those challenges.

Our first order of business was to put our fiscal house in order. The second was to consult with Northerners so we could set our course for the term of the 15th Assembly. We have done both.

We are now better able to focus on what we want to accomplish as a territory – "Self-reliant individuals and families sharing the rewards and responsibilities of healthy communities and a prosperous and unified Northwest Territories".

This vision, Mr. Speaker, was developed last May by this Assembly, working in partnership with Aboriginal and community leaders. In turn, the Government has responded with a long-term *Strategic Plan* that sets out the priorities and actions that support the vision and goals of the Assembly.

The Budget passed by this Legislative Assembly last year was an important first step in our plan to restore our fiscal sustainability. We limited our spending growth and increased our tax revenues. We were successful in negotiating additional funding for two years under our Formula Financing arrangements and these negotiations are on-going for the longer term. We have also been able to secure funding for other priority areas such as health care and infrastructure development.

Today's Budget has two objectives. First, we must make strategic investments in the Northwest Territories and its people. Second, we must continue the critical work of ensuring our long-term fiscal sustainability. We cannot achieve one without the other.

This Budget supports the work of the Members of this Legislative Assembly towards accomplishing our vision. It also sets out the steps we must take to ensure we do not end up back where we started financially. Fiscal responsibility must be more than just words. Our spending must be responsive to the needs of our residents, but we, as a government, must also spend responsibly.

Mr. Speaker, during the course of developing this Budget, I have received many comments and suggestions from Members of this Legislative Assembly. We have also received recommendations from the Committees of this Assembly, which have significantly strengthened the Budget I present today. I want to thank Members for their constructive comments and input, both individually and through the committee process. It is by working together that we can stay focused on our vision of a self-reliant, prosperous and unified Northwest Territories.

ECONOMIC REVIEW AND OUTLOOK

Mr. Speaker, our economic growth continues unabated. Fuelled by non-renewable resource development, the Northwest Territories real Gross Domestic Product (GDP) is estimated to have grown 79 per cent from 1999 to 2004. To put this in perspective, the comparable number for Canada is about 16 per cent. We are forecasting that it will grow by a further 10.1 per cent in 2005.

This growth is driven mainly by diamond exports, and non-renewable resource development is expected to continue to drive strong economic growth for the foreseeable future. We have come a long way from 1998 when the opening of the Ekati diamond mine started the Canadian diamond mining industry. The Northwest Territories is now the world's third largest supplier of rough diamonds by value. Production from the Ekati and Diavik diamond mines was worth $1.7 billion in 2003 and is estimated to have grown to $2.1 billion in 2004. The Snap Lake project received final approval last May to become the Northwest Territories third diamond mine. Construction will begin this year and full production is scheduled for 2007.

Mr. Speaker, this government continues to support the development of a Mackenzie Valley natural gas pipeline. We continue to work with Aboriginal leaders as we proceed into the next phase of the pipeline development process.

Pre-construction work for the Mackenzie Gas Project is expected to start in 2006 with pipeline construction scheduled over the period 2007 to 2010. If the

Mackenzie Gas Project is approved, and this work schedule holds, natural gas will begin flowing south from the Mackenzie Delta by the end of this decade.

Other sectors of the economy are also growing, spurred by the various non-renewable resource development projects. Retail trade has increased over $150 million, or 41 per cent, since 1999. Wholesale trade increased 20 per cent from 1999 to 2004. Manufacturing shipments have grown from $22 million in 1999 to an estimated $63 million in 2004.

Mr. Speaker, the tourism industry is an important part of our renewable resource sector. Tourism, and particularly Aurora tourism, is rebounding from the setbacks caused by the terrorist attacks on the United States and the SARS outbreak. Aurora lights tours have completely recovered and are continuing to grow. Tourists and business visitors contribute $90 million in direct spending annually into the Northwest Territories economy and the tourism industry has the potential to provide an even larger contribution, especially in smaller communities. We need to continue to support the tourism industry in its efforts to market the Northwest Territories as a four-season destination.

Economic growth is benefiting Northwest Territories residents. As of December 2004, the territorial employment rate, which is the percentage of people over 15 years of age that are employed, was almost 71 per cent, the second highest in Canada.

Despite our booming economy, we continue to observe quality of life indicators that are significantly below national standards. The distribution of economic activity in the Northwest Territories is not even. The NWT Bureau of Statistics' *2004 Community Survey* shows unemployment rates ranging from five per cent in Yellowknife to almost forty per cent in some smaller communities. One of the main priorities of this government is to ensure all northerners have the opportunity to benefit from economic development. Economic growth must not only benefit large corporations, it must also benefit the young men and women that call this land home. The development that we are experiencing must result in improved social conditions and help provide a better quality of life for all Northwest Territories residents.

It is important to point out, Mr. Speaker that while the Northwest Territories receives some benefits as a result of our economic boom, the rest of Canada benefits even more from our non-renewable resource development. Until we negotiate new arrangements with the Government of Canada, they will continue to receive more than 90 per cent of government revenues from non-renewable resource development. Further, the majority of the direct and indirect employment created by resource development would benefit Canadians living outside the Northwest Territories. Clearly, the negotiation of an agreement that ensures that northern governments receive a fair share of resource revenues is a critical requirement for continued development in the Northwest Territories.

FISCAL REVIEW AND OUTLOOK

Turning now to our fiscal situation, Mr. Speaker, I am pleased to report that the negotiated increases in federal transfers and the successful implementation of our fiscal strategy have greatly improved the Government's fiscal outlook over last year.

2003-04 Year End Results

Our final numbers for the 2003-04 fiscal year showed an operating deficit of $65 million, $13 million less than estimated last March. This was primarily the result of higher than expected revenues.

2004-05 Update

Last March we predicted a $46 million operating deficit for the current fiscal year, 2004-05. I am pleased to advise this House, Mr. Speaker, that we are now projecting a $44 million operating surplus. The current 2004-05 revenue forecast is $103 million higher than last year's Budget forecast. Higher Formula Financing Grant and health fund transfers account for $92 million of this increase, but our tax revenues are also estimated to be higher than forecast. Expenditures for the current year are now forecast to be $14 million higher than budgeted last March. This increase is primarily due to expenditures beyond our control, such as costs incurred for additional fire suppression activity due to a severe forest fire season in 2004.

In short, the strategy we adopted a year ago – a strategy composed of securing additional revenues under our Formula Financing arrangements and implementing both expenditure reallocations and limited tax measures – has been successful.

2005-06 Outlook

Mr. Speaker, this Budget holds the line on spending growth. Our 2005-06 operating expenditures are budgeted to grow less than one per cent from the 2004-05 Main Estimates. This, combined with increases to the Formula Financing Grant, will produce a budgeted operating surplus of $49 million for 2005-06.

Medium-Term Outlook

As late as last fall, we were forecasting that this Government would exceed its authorized borrowing limit of $300 million by fiscal year 2006-07. I am pleased to announce that the negotiated increases in federal transfers and the expenditure restraint that we are continuing to exercise mean that the Government of the Northwest Territories will not exceed its borrowing limit in the medium term. However, our fiscal strategy must take into account the requirement set out by the federal government to repay them the $290 million Corporate Income Tax overpayment that we received in 2002-03.

Mr. Speaker, the good news on the revenue side is that we have been able to negotiate increased funding in the short term under Formula Financing. However, our funding arrangements after 2005-06 are uncertain. The new rules for Formula Financing after 2005-06 will be established after an Expert Panel on Equalization and Territorial Formula Financing provides recommendations on how funding should be allocated among the three territories. The Panel will report in late 2005, which adds uncertainty to our fiscal framework beyond 2005-06.

This uncertainty means we must continue to exercise fiscal discipline. We cannot make expenditure commitments that we cannot finance. Although we have significantly higher revenues than forecast last year, we need to continue with our fiscal plan and meet the expenditure targets we set last year. I say this, Mr. Speaker, because we needed $46 million to balance the 2004-05 budget and we continue to face forced growth of over $40 million annually to cope with growing population and inflation.

FISCAL STRATEGY

Mr. Speaker, in many ways our fiscal strategy can be compared to the operations of a well-managed household. A family would be in dire circumstances if they had to borrow to buy groceries. If they found themselves in this situation and could not earn more income, their only alternative would be to look at how they spend their money. If money is tight, they may need to choose between buying their children toys or new winter coats. Most families make these choices on a daily basis. The Government of the Northwest Territories is no different. Our operating expenditures are not fiscally sustainable if we have to borrow to finance them. However, just like a family is prepared to borrow to buy a house if they can afford the monthly mortgage payment, we are prepared to borrow to make necessary capital investments.

We do not want to find ourselves in the fiscal situation we faced last March. We must take steps to ensure on-going fiscal sustainability. Our Fiscal Responsibility Policy is a cornerstone of this Budget and our new fiscal strategy.

Our Government must invest in programs, services and public infrastructure for Northwest Territories residents. The new Fiscal Responsibility Policy sets out the guidelines for how much we can borrow, what we should and should not borrow for, and how we will be held accountable for our borrowing decisions. We are prepared to borrow for infrastructure and other investments. We are not prepared to borrow for day-to-day operating requirements. The Fiscal Responsibility Policy will ensure the Government has a coordinated strategy for responsible spending, borrowing and debt repayment.

The Northwest Territories requires significant investment in infrastructure. The Fiscal Responsibility Policy establishes an on-going means of financing that investment. The Policy requires that, at a minimum, 50 per cent of our annual capital infrastructure investment will be financed by the cash generated from operating surpluses. A maximum of 50 per cent of annual capital infrastructure investment will be financed by debt. This means we need to plan for, budget and achieve operating surpluses on an on-going basis that are sufficient to generate the cash to finance 50 per cent of capital investments, as well as make the principal and interest payments on what we have borrowed. Ensuring we have cash operating surpluses sufficient to fund critical capital investments is one of the disciplines we must exercise to be truly fiscally responsible and accountable.

Our Fiscal Responsibility Policy means that we must focus on priority areas and be cautious about on-going program commitments. This Budget limits expenditure growth in 2005-06 to critical new initiatives and forced growth. Our priority initiatives are those that support the goals and the needs identified in our *Strategic Plan*.

By restraining spending in 2005-06 we can reduce the likelihood of further major spending reductions. Of course we must always be vigilant to ensure we are spending wisely and achieving acceptable results. Responsible management and sound fiscal stewardship means continually monitoring our expenditures on programs and taking actions to further improve efficiency and results. We must be able to make these decisions without the pressure of a fiscal crisis.

Mr. Speaker, as part of our fiscal strategy, we requested that Moody's Investors Service, a respected international rating agency, undertake an independent credit rating for the Government of the Northwest Territories. I am pleased to report that yesterday Moody's announced that it has issued a Aa3 credit rating for our Government. This is an excellent rating. This high-grade rating represents an independent assessment of the strength of our economy and recognizes the sound fiscal position and outlook of this government. The rating is built on the commitment to long-term fiscal planning and balanced fiscal outcomes made by the Members of this Legislative Assembly.

Mr. Speaker, as a result of the sound fiscal position of the Government and the implementation of the Fiscal Responsibility Policy, I will be asking the Honourable Ralph Goodale to change the current borrowing authority from its

arbitrary level of $300 million, to one which reflects this government's capacity to finance debt. We believe affordable debt to be the level at which annual debt payments do not exceed five per cent of total annual revenues.

EXPENDITURE MEASURES

Fiscal sustainability not only means living within our resources but also ensuring that the fundamentals and necessities are in place. That means we spend on priority programs first. Total budgeted expenditures in 2005-06 will grow to $974 million, an increase of less than 1 per cent from last year. The Budget includes $20 million in forced growth for current programs and services and $16 million for new initiatives that will help us achieve the goals set out in our *Strategic Plan*. But we are offsetting these increases with expenditure reductions of $26 million.

When we took office last year our financial situation required strong action to reduce spending. We set a target of reducing spending by $10 million in 2004-05, $20 million in 2005-06 and a further $20 million in 2006-07. Today I am able to report we have exceeded our reduction goals for 2004-05 and 2005-06 by $5 million in each year. By making these hard spending decisions early, and with our improved revenue outlook, we have met our short-term expenditure objectives. By remaining aggressive in looking for efficiencies and better ways of doing business, we will be able to make strategic investments in areas of priority to the people of the Northwest Territories.

In reducing expenditures, we took care to minimize the impact on services to the public. We first looked to internal efficiencies and then to areas where the impact would only be felt within the Government itself. After that, we looked at where we could reduce service levels or program support that would have minimal impact on the public. However, public impacts will be felt. It is simply not possible to reduce government spending by $40 million over two years and not have some impact on public services.

Mr. Speaker, there are many unmet social needs in each of our communities and sectors of our economy require more investment. Since 1999-00, the Government of the Northwest Territories has increased base spending on social programming by over $200 million, or 40 per cent, and yet we seem to have only scratched the surface on improving social conditions. Making real social gains will require much more than just money. Control over our own future starts with the individual. It will take acceptance of greater personal and collective responsibility, improved access to educational and economic opportunity, and resolution of Aboriginal rights issues.

Strong Northern Voice and Identity

Mr. Speaker, this Assembly has identified "a strong northern voice and identity" as one of our goals. We must continue to work hard to ensure that northern issues remain high on the national agenda. Last December, our Premier, the Honourable Joe Handley, along with Prime Minister Martin and the Premiers of Yukon and Nunavut, launched the development of a comprehensive Northern Strategy framework.

This work will build on initiatives and goals set out in the *Strategic Plan* and will address joint actions in areas such as economic growth and jobs, health and education, culture, the environment and Arctic sovereignty and security.

Participation by the Government of the Northwest Territories in the announcement and development of the Northern Strategy is based on the principle that any effective, sustainable strategic plan for the North will include an agreement on the transfer of responsibility for northern lands and resources from the federal government to northern governments. Equally important, this transfer must be accompanied by an agreement that makes northern governments the primary beneficiaries of the revenues generated by these northern resources. To this end, the Prime Minister has agreed that all parties target this spring for the conclusion of an Agreement in Principle, and 2006 for the conclusion of a Final Agreement on Devolution and Resource Revenue Sharing.

During the negotiation of the Northern Strategy Framework, we were also able to negotiate an additional $40 million in funding for the Northwest Territories. It is our view that this funding must be used to address urgent community needs. The timing of this funding is dependent on the passage of the 2005-06 federal budget so we intend to take the next several months to discuss, with Members of this Legislative Assembly, Aboriginal governments and other stakeholders, how these funds should be expended.

This Budget includes $355,000 to support initiatives such as the development of the Northern Strategy and $1.8 million for the continuation of devolution and resource revenue sharing negotiations. This funding includes a $500,000 contribution to the Aboriginal Summit for their continued participation in this process. The negotiation of a fair deal on devolution and resource revenue sharing remains a critical priority for this government.

Healthy, Educated People Living in Safe Communities

Over $695 million of our budgeted operating expenditures are targeted to support social and community programs. This represents more than 70 per cent of our expenditures and reaffirms the commitment of this Government and Legislative

Assembly to the goal of "healthy, educated people living in safe communities, who are able to contribute and take advantage of life's opportunities."

Our health care system continues to face increased demand due to demographic pressures and rising costs. Through the Department of Health and Social Services, the Government of the Northwest Territories will spend $253 million for health and social services programming in 2005-06.

Mr. Speaker, this Budget makes significant new investments in the health and welfare of our residents. An additional $12 million will be invested in existing and expanded health programs and services, including:

- $1.8 million for supplemental health benefits programs for seniors and residents with specific health conditions such as heart disease and diabetes;

- $1 million for implementation of the third year of the Mental Health and Addictions strategy, which will permit the addition of three clinical supervisors and nine mental health worker positions;

- $907,000 for three new public health units in the Sahtu, Deh Cho and Tłı̨cho regions;

- $737,000 to help meet the rising costs associated with placing adult residents in southern facilities to ensure they can receive the care they need when it is not available in the Northwest Territories;

- $895,000 to fund eight Community Demonstration Projects as part of the Government's response to the Social Agenda; and

- $2.8 million for compensation and benefits increases for health care professionals to ensure we continue to remain competitive with the rest of the country.

At last September's First Ministers' Meeting, Premier Handley and his provincial and territorial colleagues secured increased funding for health care. This included a Health Access Fund of $150 million over three years for the three territories to help offset medical transportation costs and to fund long-term health reform initiatives. Because the terms and conditions for the Health Access Fund are not finalized, the revenue and associated expenditures are not included in this Budget. The Honourable Michael Miltenberger, Minister of Health and Social Services, will be coming forward later this year with a plan to use this new funding.

Mr. Speaker, achieving success in our education system is a priority for the Government. Total spending of the Department of Education, Culture and Employment will be $245 million in 2005-06. This Budget will provide the

Honourable Charles Dent, Minister of Education, Culture and Employment with over $3 million to implement new initiatives in our education system including:

- $742,000 for the services provided by Alberta Learning for the use, scoring, and reporting of Grade 12 diploma exams and Alberta Achievement Tests taken by our students;

- $662,000 to implement the fourth and final year of the Bachelor of Science in Nursing program at Aurora College; and

- $727,000 to support the continued development and implementation of early childhood immersion programs designed to restore the use of Aboriginal languages among young children and their families.

Along with these investments, over $2 million has been allocated to Northwest Territories schools to help meet expenditure pressures.

Our government, Aboriginal governments, Aurora College and industry are working together to help Northerners access the training they will need to qualify for careers in our growing economy. Last year two major collaborative efforts were announced. The four year Aboriginal Skills and Employment Partnership, or ASEP, projects in support of the oil and gas and mining sectors will train nearly 800 Northerners for jobs in these two important sectors. The federal government contributed nearly $24.8 million to these efforts while the Government of the Northwest Territories, Aboriginal governments and industry pledged $28.4 million in in-kind contributions and support from existing budgets. During the next year, the Department of Education, Culture and Employment will work closely with its partners to plan and deliver critical training under the ASEP projects.

While the number of Northwest Territories apprentices has increased nearly 20 per cent over the past four years, we still need more trained Northern tradespersons to meet the demand caused by rapid resource development. We are responding to recommendations made by the Standing Committee on Social Programs by directing $480,000 more of the Department of Education, Culture and Employment's training budget for apprenticeship subsidies in 2005-06. As well, the Department will develop new high school courses to prepare students for emerging northern occupations.

Mr. Speaker, this Budget supports the Assembly's goal of making our communities safer.

The Department of Justice will provide over $1.4 million to the Royal Canadian Mounted Police for ten new RCMP positions. Six of these positions will be assigned to detachments in Rae, Yellowknife, Fort Providence and Tuktoyaktuk. A new three-person traffic unit will have two officers based in Hay River and one in Yellowknife. A new dog and handler unit, located in Yellowknife, will serve the entire territory.

To continue the commitment to improve access to legal aid services, $400,000 has been allocated for the on-going operations of the new family law clinic. In addition, over $200,000 has been allocated for the continued public education and training on the *Protection Against Family Violence Act*.

As further support of justice activities at the community level, an additional $240,000 will be made available to community justice committees.

Well-Governed, Sustainable Communities

Mr. Speaker, well-governed, sustainable communities and regions are a large part of the vision of the 15th Legislative Assembly and we are committed to delivering on this goal.

The Government's *Strategic Plan* emphasizes the importance of partnerships. Many community governments are looking to partnerships as a creative solution to meeting their infrastructure needs.

Earlier this year, the Honourable Michael McLeod, Minister of Municipal and Community Affairs, announced the New Deal for Community Governments, designed to provide all our communities with the tools and resources they need to operate effectively. Communities have taken on an increasing range of authority and responsibility in recent years and this government recognizes that communities need increased resources and flexibility to exercise these responsibilities.

Therefore, we intend to see most community governments become municipal taxation authorities, setting mill rates and directly benefiting from the revenues raised locally, effective in the 2007-08 fiscal year. And in response to demands from communities, we will transfer full authority for infrastructure planning and development directly to those community governments who currently receive their infrastructure services through the Government's corporate capital planning process. To ensure communities have the support necessary in this endeavour, we will provide formula funding for infrastructure directly to community governments and we will commit that funding levels to community governments will not decrease.

This new approach will put decision-making about capital projects where it belongs – at the community level. It will provide communities with a guaranteed funding base that can be used to leverage partnerships, or used as collateral to borrow for infrastructure development.

Given these proposals represent a major change in the way this Government does business, we intend to consult with and work with communities to develop transition plans and build capacity. The Department of Municipal and Community

Affairs will receive an additional $1 million in 2005-06 to consult and plan for the use of enhanced funding under the New Deal. In addition, this Budget contains $125,000 to establish a Centre of Expertise for infrastructure financing and leveraging, which will work directly with communities who need technical assistance to find external infrastructure funding opportunities.

Mr. Speaker, I am pleased to announce a number of important measures representing the first steps in implementation of the New Deal for Community Governments.

As an interim measure, beginning April 1, 2005, we will turn over property tax revenues collected within General Taxation Area community boundaries to those communities. This means an additional $350,000 in operating revenues for communities in 2005-06. The funding will be provided as an unconditional grant for communities to apply to areas of greatest need.

Effective the 2006 tax year, every local government will have the right to ask that the mill rate within community boundaries be raised if they choose to use property taxation as a way to increase revenues. The revenue from a mill rate increase will go directly to the community that asked for the increase.

For many years our smaller communities have asked for stable capital funding so that they can do proper planning. Unfortunately, our fiscal situation has made it difficult to keep up with community infrastructure needs or to provide the certainty that municipal governments have been asking for. The steps this Legislative Assembly have taken to stabilize our own fiscal situation means that we are in a position to address this urgent issue in our communities.

Mr. Speaker, I am pleased that this government will address the infrastructure deficit faced by our community governments. We will establish a stable funding base of $25 million per year for infrastructure development in our communities, effective April 1, 2006. To meet this target, we intend to increase funding levels for community infrastructure in the current infrastructure acquisition plan by $13 million in 2006-07, $15 million in 2007-08, and $17 million in 2008-09.

The increases to our infrastructure acquisition plan will provide direct benefit to the 27 General Taxation Area communities who today rely entirely upon the Government for infrastructure development.

Mr. Speaker, we also recognize the financial pressures faced by the six larger communities who already operate as municipal taxing authorities. To assist these communities, we intend to provide an additional $3 million on an annual basis to support infrastructure development in these communities. This funding will also be effective on April 1, 2006.

These initiatives are designed to support the New Deal for Northwest Territories communities. I should also note that our Government is working closely with the Government of Canada to ensure that our initiatives will complement emerging

proposals by Canada to provide new funding to community governments for infrastructure development through initiatives such as the Municipal Rural Infrastructure Fund and gas tax funding. Last week's announcement by the Government of Canada of the gas tax sharing formula will mean an additional $37.5 million will flow to Northwest Territories communities to be used for environmentally sustainable infrastructure over the next five years. Once the gas tax fund reaches its full amount in the fifth year, Northwest Territories communities will receive $15 million annually on an on-going basis. We are working with the Northwest Territories Association of Communities to ensure that these funds will flow in a manner that best meets the needs of our communities.

As the Premier has previously committed, there will be no claw back of new federal funding for community governments. This increased funding, combined with new federal funding, will mean that community governments are more able to respond to local needs.

Finally, I am pleased to announce that the 2005-2006 Infrastructure Acquisition Plan has been amended to include $5.5 million in additional funding that will be provided this year through the Government of Canada's Municipal and Rural Infrastructure Program.

In addition to new initiatives, we recognize that community governments are struggling to cope with inflationary pressures such as rising fuel costs, salary and wage increases and the cost of providing water and sewage services. This Budget includes $2.5 million to help community governments deal with these pressures.

We are also looking at alternative energy sources that will help address the high energy costs faced by all communities and further our goal to improve the sustainability of our communities. Through the Northwest Territories Power Corporation, we are continuing to pursue the development and expansion of our hydro electricity potential. There is reason to be optimistic that one day we will see many benefits from increasing our supply of this cheaper, cleaner power source. The Power Corporation has entered into partnerships with Aboriginal businesses to advance these projects.

Mr. Speaker, last week Premier Handley and I met with the Senate Standing Committee on Aboriginal Peoples. It is anticipated that *Bill C-14*, the legislation ratifying the Tłı̨chǫ Lands, Resources and Self-Government Agreement, will receive assent in the next few weeks, which will allow its implementation. This agreement is a testament to the evolving relationship between the Government of the Northwest Territories and Aboriginal governments and will provide a useful guide as we address similar issues in other regions of the Northwest Territories.

The Beaufort Delta Agenda, an initiative identified in our *Strategic Plan*, provides an important foundation for our government's evolving relationship with current and future governments in the Beaufort Delta region. While work on self-

government in the region continues, the Agenda provides an immediate opportunity for more local and regional input into decision-making. In the coming year, the Government will continue to support and enhance efforts towards realizing the vision and achieving the priorities as laid out in the Beaufort Delta Agenda.

Diversified Economy

Mr. Speaker, one of the goals of the *Strategic Plan* is the development of a diversified economy that provides Northerners with opportunities and choices. This means creating an environment that allows individuals to seek economic opportunities in communities that are viable and sustainable over the long term. It also means taking action to provide necessary public infrastructure.

The Honourable Michael McLeod, Minister of Transportation, will continue to implement projects under the Canada Strategic Infrastructure Fund. With the help of the 50/50 federal cost-sharing contributions from this program, $32 million in reconstruction projects on our highway system, including the Mackenzie Valley Winter Road, are scheduled for 2005-06. This investment includes completion of the reconstruction and paving of the highway between Rae-Edzo and Yellowknife in 2005-06.

Progress continues on the public-private partnership to build the Mackenzie River bridge at Fort Providence. The project has received approval from the Mackenzie Valley Environmental Impact Review Board and a final Concession Agreement with the Deh Cho Bridge Corporation is expected soon, subject to completion of design work. The current schedule has bridge construction starting this year.

This Government is excited about the international opportunity we have to market the Northwest Territories as a great tourist destination to hundreds of thousands of Japanese and international tourists at Expo 2005 in Aichi, Japan. This Budget includes $500,000 to fund our marketing efforts at Expo 2005.

The Mackenzie Gas Project is key to the long-term economic development of this territory and we remain firmly committed to ensuring it proceeds in a timely manner. To accomplish this, we have provided additional funding in this Budget to support our efforts in this area. These investments include:

- $200,000 for additional resources required to review prospecting permits for potential impacts on heritage areas due to increased land use activity;
- $110,000 for additional funding to the Aurora Institute for increased licensing of research applications; and

- $120,000 for the Bureau of Statistics to provide support in assessing cumulative social and economic impacts of resource development.

In the upcoming year, government departments will continue to work together and with communities to identify and quantify the costs of impacts of pipeline development. This will better position us to address these impacts.

Care and Protection of the Natural Environment

The *Strategic Plan* commits the Government of the Northwest Territories to increased transparency and accountability in the environmental and economic development portfolios. In January, the Honourable Brendan Bell, Minister of Resources, Wildlife and Economic Development, announced that on April 1st the Department will be restructured into two new departments. The new departments are reflected in this Budget, with a total operating budget of $52 million for the Department of Environment and Natural Resources and $35 million for the Department of Industry, Tourism and Investment.

The importance of environmental stewardship and the high value our residents place on the Northwest Territories' natural resources, especially wildlife, is not in doubt. To prepare for development, the new Department of Environment and Natural Resources will continue important research to gather baseline data in every region on the health and status of various wildlife populations. This Budget includes $275,000 in new funding for the Bathurst Caribou monitoring program to ensure that any impacts of increased human activity on the herd can be identified and mitigated. This program will include working with communities to get direct input from harvesters and elders.

Resource development in the Northwest Territories has been fast-paced. We will need to focus our resources in areas where they will have the most impact and will play a key role in the environmental assessment process of major developments. The Budget includes $390,000 to address immediate environmental assessment and review requirements. To address regional impacts from development, $250,000 will be invested in two new regional Environmental Protection Officer positions in Yellowknife and Inuvik.

The development of a system of protected areas in advance of the Mackenzie Valley Pipeline Project is a key commitment of this Government. To meet this commitment, $1.5 million will be invested over five years to fund the implementation of the *NWT Protected Areas Strategy Action Plan*.

Infrastructure Investment

Mr. Speaker, our new Fiscal Responsibility Policy requires that we run operating surpluses to fund at least 50 per cent of our capital investments. Our expenditure reductions and Formula Financing Grant increases have resulted in budgeted operating surpluses over our three-year planning period. We are therefore able to make necessary investments in capital. We are committing to invest $116 million in 2005-06, including $8 million not previously planned for in the 2005-06 capital assessment plan.

There is a substantial and increasing deficiency in our infrastructure investments. In the past we have put necessary projects on hold to fund our operating expenditure needs. As a first step in addressing this deficiency, we will be investing $85 million more over the 2005-06 to 2007-08 planning horizon for projects that are desperately needed but were not included in the original 2005-06 planning process.

The Government's three-year capital investment plan proposes to invest:

- $78 million for school replacement and renovation projects;
- $48 million for renovations and upgrades to our hospitals and health centres;
- $37.2 million for continued improvements to community water and sewer systems;
- $22.7 million for replacement, upgrades and capacity increases for community tank farms; and
- $9.4 million for new medical equipment for hospitals and health centres.

Although we are making significant progress in closing the infrastructure gap, much remains to be done. Every community in the Northwest Territories identifies housing as a critical infrastructure requirement. Whether it is over-crowding in small communities or high rents in larger communities such as Inuvik and Yellowknife, we know that housing issues top the agenda for most communities. The housing problems we face are many and complex. The shortage and cost of residential lots, high utility and operational costs, lack of private investment and mortgage financing, and low community income levels are some of the challenges we face.

These problems will not be solved overnight and the Government cannot solve them alone. We must all work together to address them. Economic growth and job creation must increase employment and income levels. Investment in new energy infrastructure must be made to reduce operating costs. Innovations to construction and development financing are required to get capital costs down.

Land management and development practices and policies must be adjusted to increase the availability of affordable residential lots. And individuals must also accept as much personal responsibility and initiative as possible to address their families' shelter needs.

The Honourable David Krutko, Minister Responsible for the Northwest Territories Housing Corporation, will be taking the lead on many of these housing issues. The Minister has recognized that building strong federal-territorial relations is essential in addressing our housing challenges. He has engaged his federal counterpart in one-on-one dialogue on several occasions.

As well, Minister Krutko is directing the Housing Corporation in the revision of its mandate. This will refocus the mandate from being mainly involved in social housing to activities tackling the huge task of addressing the need for affordable and suitable housing. This will better position the Housing Corporation to use opportunities provided by large-scale economic projects. Over the next year, the Corporation will be working with our partners to develop the strategy to achieve this broader and critical goal.

REVENUE INITIATIVES

Mr. Speaker, as I mentioned earlier, Formula Financing arrangements after 2005-06 remain uncertain. We intend to work with the federal government and the Expert Panel on Equalization and Territorial Formula Financing to ensure that new arrangements continue to address our needs after 2005-06.

We also intend to aggressively pursue, in partnership with Aboriginal Governments, a resource revenue sharing agreement that ensures that northern governments are the primary beneficiaries of northern resource development. We have heard the commitment of the Prime Minister on this matter and look forward to an early resolution of these negotiations.

I am also pleased to announce that we are re-introducing the Risk Capital Investment Tax Credit program, which expired last year. The tax credit gives Northwest Territories taxpayers an incentive to invest risk capital in Northwest Territories businesses. Starting in 2005, up to $2 million in tax credits will be available in each of the next three years.

Mr. Speaker, we have worked hard to stay on the fiscal plan set out by the Members of this Legislative Assembly. I am pleased to say that our revenue and restraint efforts mean that this Budget includes no new tax increases. Our concerted effort to reallocate expenditures and hold the line on program spending mean that tax measures are not necessary.

CONCLUSION

Mr. Speaker, through prudent long-term planning and a firm commitment to bring expenditures in line with revenues, we have made great strides in putting our fiscal house in order.

Fiscal sustainability, however, is always a work-in-progress and we cannot be complacent in managing our finances. We must continue to exercise fiscal discipline. We must constantly look at how we run our programs and spend our money. We must eliminate inefficiency so we can put our resources where they are needed the most. We must always be vigilant to ensure we are spending wisely. And we must put in place policies that ensure we are able to finance the on-going investments in infrastructure that we need to make. We face many challenges in achieving the goals we have set for ourselves as the 15th Legislative Assembly and we must proceed carefully. However, we are now able to move forward within a framework of fiscal responsibility.

We have a clear vision of where we are going and have mapped out how we will get there. We will move forward by working with federal and other provincial and territorial governments to further the Northwest Territories' contribution to all of Canada. We will invest in the infrastructure that will further grow our economy in a manner that balances social, economic and environmental needs.

Mr. Speaker, the future holds much promise for the people of the Northwest Territories. Turning this promise into reality will take focussed and dedicated people who are willing to work together. It is up to the leaders of the Northwest Territories to light the path and lead the way.

Budget

ADDRESS

NORTHWEST TERRITORIES 2005 - 2006

BUDGET PAPERS

A ♦Economic Review

B ♦Fiscal Review

NORTHWEST TERRITORIES ECONOMIC OUTLOOK

Growth in the Northwest Territories (NWT) economy in 2004 was once again noteworthy: real GDP grew by an estimated 10.6 per cent. That growth comes on top of the robust growth that has taken place in recent years, including growth of over 20 per cent in 2003. From 1999 to 2004, the NWT economy has grown 79 per cent in real terms. That the economy has been able to sustain these gains even in the face of a rapidly expanding base of activity is remarkable. In fact, no other province or territory has matched the growth that has taken place in the NWT over the past five years.

Half of the growth in the NWT economy in 2004 was due to an increase in diamond exports and one-third was due to higher investment. However, all components of GDP – investment, consumer expenditures, government expenditures and net exports – increased. Employment and average weekly earnings rose 3.7 per cent and 3.0 per cent, respectively. Yet, despite the economic strength, pricing pressure at the consumer level was very modest, with the 2004 Yellowknife Consumer Price Index (CPI) up only 0.6 per cent from 2003. The low growth in the consumer price level, combined with the gain in average weekly earnings, meant that the typical consumer in the NWT witnessed solid growth in purchasing power during the year.

The outlook for 2005 is bright. Driven by continued strength in commodity prices, the NWT economy is expected to continue to perform well, with real GDP growth forecast to be 10.1 per cent. The employment level should continue to rise and should be accompanied by continued growth in average weekly earnings. Consumer price inflation is expected to accelerate from the exceptionally low pace of 2004.

Over the medium-term, the future is also bright. Given the strength in the world economy and the consequent upward pressure on commodity prices, there continues to be significant interest in the NWT's non-renewable resource sector. This interest is clearly evident in the diamond sector, where the two diamond mines in production have made Canada the world's third largest producer of diamonds by value. Construction of the NWT's third mine will start soon at Snap Lake and pre-feasibility studies continue to take place at the Gahcho Kue (Kennady Lake) diamond project northeast of Yellowknife, which may result in a fourth diamond mine in the NWT by 2011.

Another source for considerable optimism is the proposed Mackenzie Valley natural gas pipeline. The economic benefits that would result from the pipeline are significant for both the NWT and Canada.

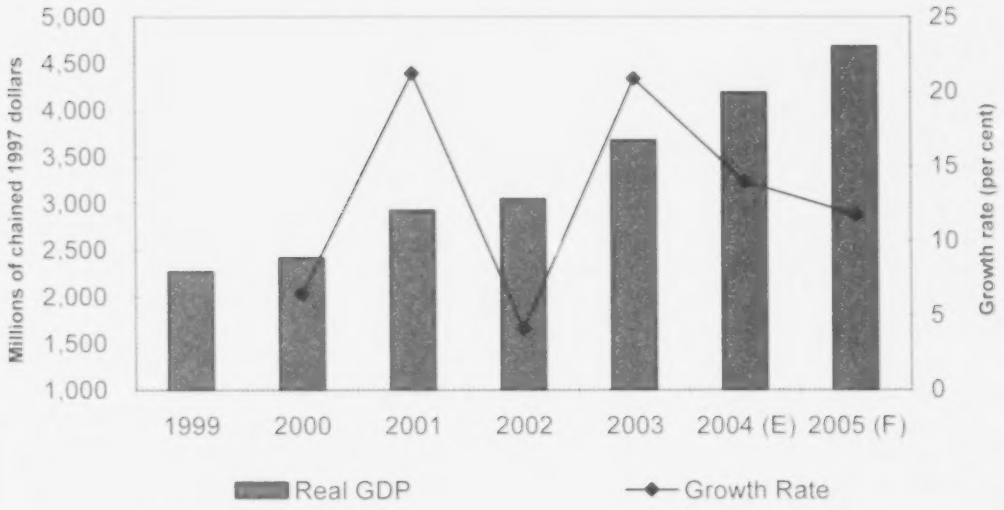
Northwest Territories Economic Indicators

INDICATOR	2002	2003	2004 (E)	2005 (F)
Gross Domestic Product, chained 1997 dollars	3,042	3,676	4,065	4,474
% change	4.1	20.8	10.6	10.1
Total Investment, chained 1997 dollars	1,256	855	1,007	1,553
% change	(5.8)	(31.9)	17.8	54.2
Consumer Expenditures, chained 1997 dollars	981	1,017	1,032	1,036
% change	4.5	3.7	1.4	0.5
Government Expenditures, chained 1997 dollars	973	1,002	1,028	1,039
% change	3.0	3.0	2.6	1.1
Exports, chained 1997 dollars	1,898	2,979	3,341	3,590
% change	9.0	57.0	12.1	7.5
Imports, chained 1997 dollars	2,051	2,036	2,186	2,573
% change	1.7	(0.7)	7.4	17.7
Employment, number of persons	20,925	20,850	21,617	21,900
% change	0.7	(0.4)	3.7	1.3
Average Weekly Earnings, dollars	888	895	925	943
% change	3.1	0.8	3.3	2.0
CPI (Yellowknife, 1992 = 100)	116.3	118.4	119.1	120.6
% change	2.9	1.8	0.6	1.5

Sources: Statistics Canada
NWT Department of Finance

(E) Estimate
(F) Forecast

NWT Real Gross Domestic Product



Sources: Statistics Canada (1999-2003) and NWT Finance (2004 - E, estimate, and 2005 - F, forecast)

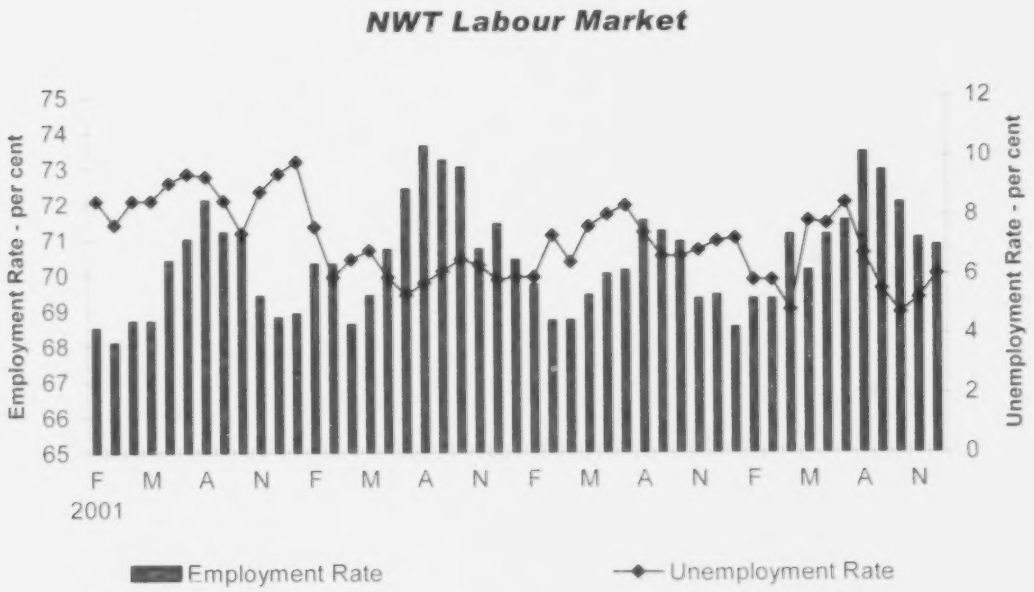
EMPLOYMENT

The employment market in the NWT remained strong in 2004. The employment level averaged 21,600 people in 2004, up from 20,900 in 2003, for a gain of 3.7 percent. This gain in employment outpaced the growth in the working age population, which rose 2.3 per cent from 29,800 in 2003 to 30,500 in 2004.

Compared to 2003, the employment and participation rates were up, while the unemployment rate was down. The employment rate in 2004 was, on average, 70.9 per cent, compared to an average 69.9 per cent in 2003. Participation rates (the percentage of people 15 years of age or older who are in the labour force) averaged 75.2 and 75.7 per cent in 2003 and 2004, respectively; and the unemployment rate averaged 7.0 and 6.3 per cent in 2003 and 2004, respectively.

Within the territory, however, differences continue to exist between the larger communities (Fort Simpson, Fort Smith, Hay River, Inuvik, Norman Wells and Yellowknife) and the smaller centres. According to the NWT Bureau of Statistics *Community Survey* (Winter 2004), the unemployment rate in the larger centres was 6.2 per cent, versus 26.0 per cent in the smaller communities. Participation and employment rates in the larger centres were 81.2 per cent and 76.2 per cent, respectively, compared to 59.9 per cent and 44.3 per cent in the smaller communities.

The NWT continues to perform well compared to the rest of Canada, with below average unemployment rates but above average employment and participation rates. In 2004, Canada's participation rate was 67.5 per cent compared to 75.7 per cent in the NWT. The national unemployment rate was 7.3 per cent, which was higher than the NWT unemployment rate of 6.3 per cent.



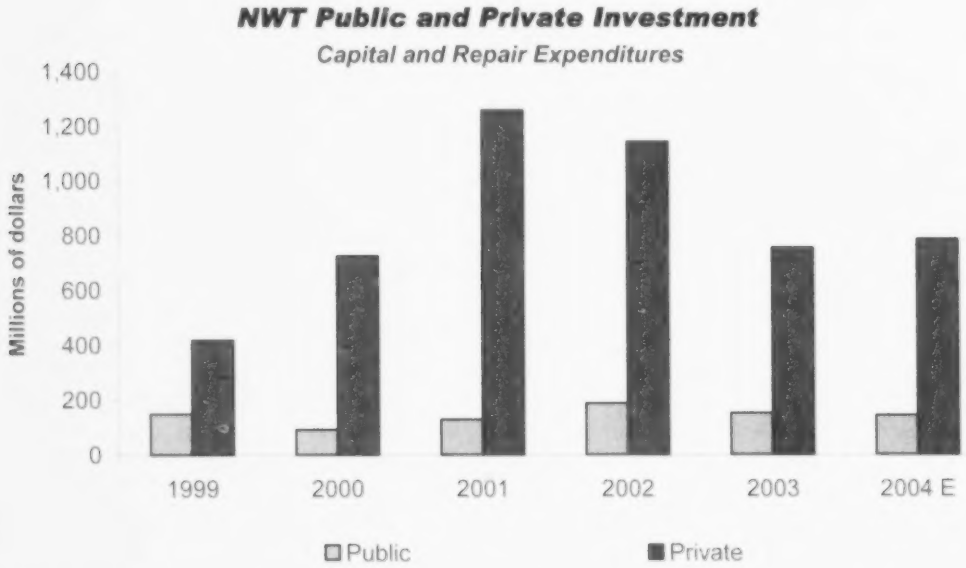
Source: Statistics Canada

INVESTMENT

Capital and Repair Expenditures in the Public and Private Sectors

Total investment expenditures in 2004 are estimated at $931 million, comprised of public sector investment of $144 million (or 15 per cent) and private sector investment of $787 million (or 85 per cent). Fiscal restraint measures in the GNWT capital budget have reduced public sector investment from its recent peak of $188 million in 2002. Private sector investment is also down from its 2001 high of $1,257 million due primarily to the completion of the construction phase at Diavik, the NWT's second diamond mine.

An improved fiscal situation will permit the GNWT to increase its investments in infrastructure over the coming years. Private sector investment should continue to be robust in 2005, as construction activity begins on the NWT's third diamond mine, located near Snap Lake. As a result, total investment in 2005 is forecast to increase from the 2004 level.



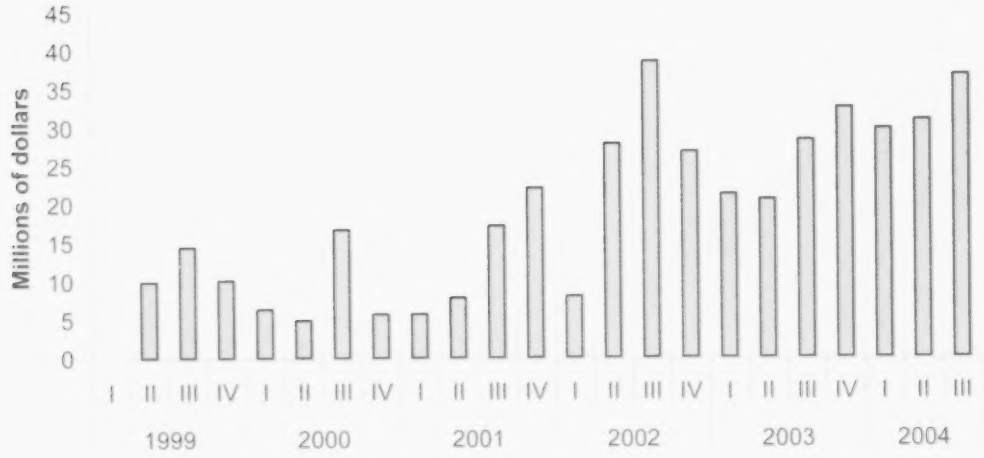
Source: Statistics Canada (2004 data estimated by Statistics Canada, using survey of investment intentions among public- and private-sector organizations)

Housing Investment

Total housing sector investment in the NWT continues to grow, driven by continued economic strength in the territory and attendant personal income gains. Through to the third quarter of 2004, the most recent quarter for which data are available, housing investment totalled $97.2 million, up from $70.0 million in the same nine-month period a year ago; a growth rate of 39 per cent. Housing investment in 2004 is expected to exceed the high level posted last year, which itself followed on the heels of strong gains in 2001 and 2002.

As in recent years, most of the housing investment growth in 2004 has occurred in Yellowknife. The housing market is expected to show continued vigour in 2005 due to low interest rates and economic activity such as the start of construction of the Snap Lake diamond mine.

NWT Housing Investment



Source: Statistics Canada

MINING AND OIL AND GAS EXPLORATION

The non-renewable resource sector is the powerhouse of the NWT economy. Within this sector, the diamond industry is now the most significant by far, although the proposed Mackenzie Valley natural gas pipeline would provide an impetus to the energy sector and would allow for new exploration for oil and gas in the territory, especially in those regions that straddle or lie near the pipeline route.

Driven by pre-production trial mining at Snap Lake, exploration spending in the NWT continued to grow briskly in 2004, coming in at $110.4 million, more than double the 2003 level of $49.8 million. Exploration spending in the NWT in 2004 was the third highest in Canada, behind only Ontario and Quebec. Because of the strong commodity prices that have been in place since 2002, interest in mineral exploration continues, and exploration expenditures are expected to remain robust in 2005.

The Diamond Sector

The value of diamond production in 2003 was over $1.7 billion, more than twice the 2002 level, due to the effect of production starting at Diavik, the NWT's second producing diamond mine. The value of diamond production in 2004 is estimated to be in excess of $2 billion. With the Snap Lake mine set to begin production in 2007, the value of diamonds mined in the NWT should continue to grow. Pre-feasibility studies are underway for a possible fourth mine at the Gahcho Kue (Kennady Lake) property.

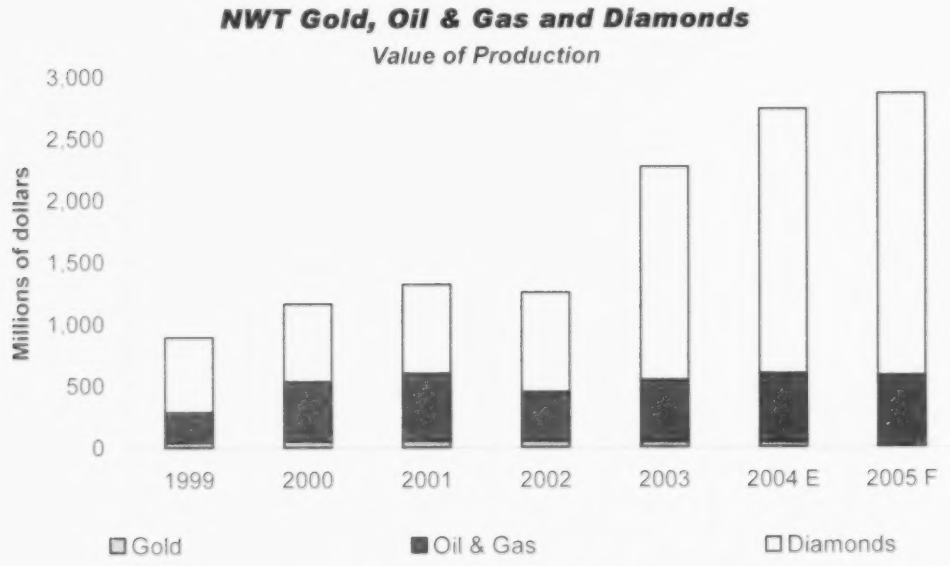
Although the value of the rough diamonds produced in the NWT's mines should top $2 billion in 2004, the value of these diamonds increases as they move through the supply chain to the point at which they are sold as jewellery at the retail level. The tasks of sorting, polishing, manufacturing and marketing diamonds add much value beyond that assigned to the rough stones produced at the mine site. Various diamond polishing enterprises operating in the NWT help to ensure that some of these downstream benefits remain in Canada's North. However, currently less than one per cent by volume of the NWT's diamond production remains in Canada to be cut and polished.

The Oil and Gas Sector

2004 was a strong year for the oil and gas sector and production values should top the $501 million mark posted in 2003. Oil and gas activity in the NWT remains centred in the Fort Liard, Cameron Hills and Norman Wells areas. However, should the Mackenzie Valley pipeline project go ahead, substantial oil and gas production and exploration is likely to take place in the Mackenzie Delta and Beaufort Sea areas.

Gold Mining

Mining operations at the last gold mine operating in the NWT ceased in July 2004 and the mine is slated to close in 2005. Gold production was valued at $45 million in 2003 and is forecast to fall to less than $10 million in 2004 and to zero in 2005.



Sources: Statistics Canada (1999-2003) and NWT Finance (2004 estimate and 2005 forecast)

COMMODITY PRICES AND EXCHANGE RATES

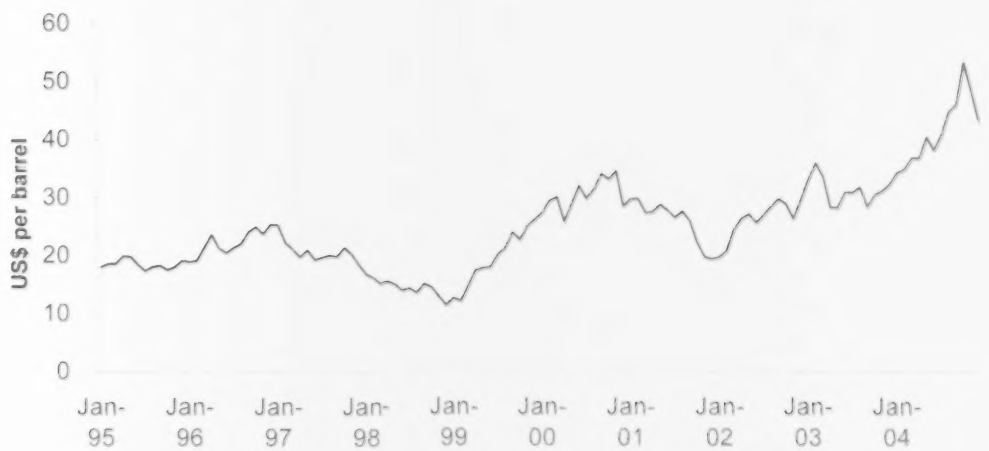
2004 was another year of strong commodity prices, especially in base metals and energy. The price of oil, in nominal terms, hit a new record, but, in real terms, the price of oil still remains below its peak of 25 years ago, when the world was still dealing with the supply disruptions that followed the second oil crisis of the 1970s. Further, because of lower energy dependency in the world's major industrial economies, the run-up in the price of oil does not seem to have had the detrimental impact that might have been expected. Nevertheless, base metal and oil and gas producers had a good year in 2004. The strength is expected to carry over into 2005, but much hinges on what happens in China, where demand for energy is a major cause of the upsurge in global commodity demand.

Oil Prices

The average price of West Texas Intermediate (WTI) oil in 2004 was US$41.41 a barrel, compared to US$31.14 a barrel in 2003, a gain of 33 per cent. Prices peaked in October, when they averaged US$53.19/bbl, and then fell slightly in November and December. Prices continued to fall in early January 2005, to lows of US$40-41/bbl, but have since rebounded to the upper US$40s/bbl.

Oil Prices

West Texas Intermediate



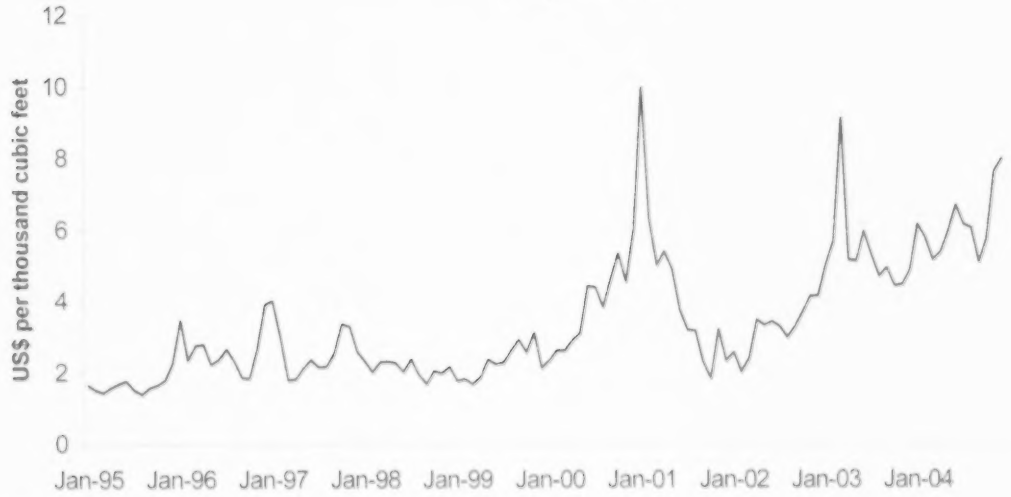
Source: Sproule Associates Limited

Natural Gas Prices

As with oil, natural gas prices also rose in 2004, when they averaged US$6.14 per thousand cubic feet (at Henry Hub, Louisiana), up 13.9 per cent from the year earlier average price of US$5.39/mcf. Unlike oil prices, natural gas prices peaked in December when the price averaged US$7.98/mcf. Natural gas prices are far higher than they were in the 1990s, when prices of US$2-3/mcf were the norm.

Natural Gas Price

Henry Hub NYMEX

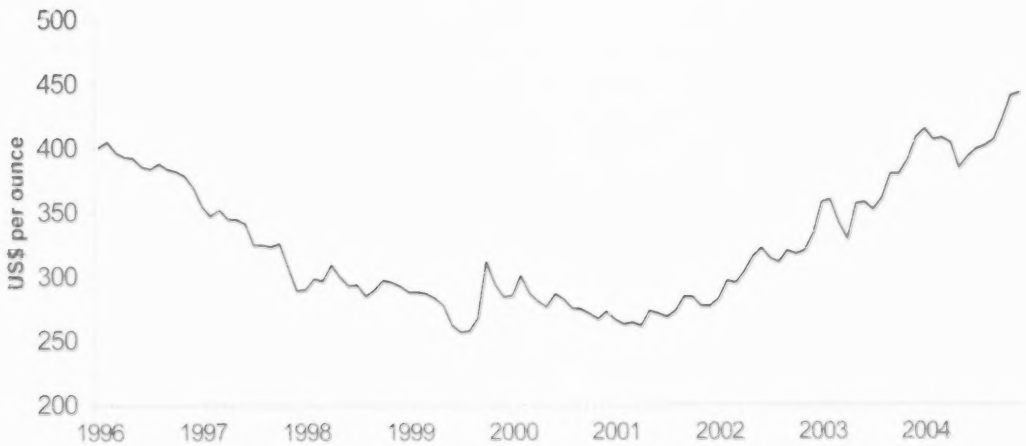


Source: Sproule Associates Limited

Gold Prices

Gold prices in 2004 built on their gains of 2003, averaging US$409.72 per ounce in 2004 versus US$363.38/oz in 2003, a rise of 12.8 per cent. That follows a gain of 17.3 per cent in 2003. The rise in the price of gold has been mainly due to the weakness in the US dollar, with which gold has a strong inverse correlation. In fact, gold's rise in price is more a matter of US dollar weakness rather than any particular strength in the price of gold itself. Expressed in terms of other currencies, the price increase looks far less dramatic. In US dollar terms, the price of gold hit multi-year highs in 2004 and was at its highest in December, when it averaged US$441.76/oz. Gold has since retreated to about US$425/oz as of mid-January 2005.

Price of Gold



Source: Kitco Precious Metals

US-Canada Exchange Rate

US dollars per Canadian dollar

Source: Bank of Canada

The Canadian Dollar

In 2004, the Canadian dollar, rising in tandem with commodity prices, posted another year of solid gains versus its US counterpart, increasing from average US71.59 cents in 2003 to average US76.98 cents in 2004, for a gain of 7.5 per cent. This gain builds on that of the previous year, when the Canadian dollar climbed 12.4 per cent. For the year, the Canadian dollar peaked at US85.04 cents on November 26. It had closed as low as US71.65 cents on May 17.

The Canadian dollar has benefited from the leap in commodity prices over the last several years, reflecting the high proportion of commodities in the composition of Canada's exports. Also giving a lift to the Canadian dollar has been a plunge in the value of the US dollar against major world currencies in general. Measured against those other currencies, the Canadian dollar has been fairly flat over the past couple of years, in marked contrast to its performance relative to the US currency.

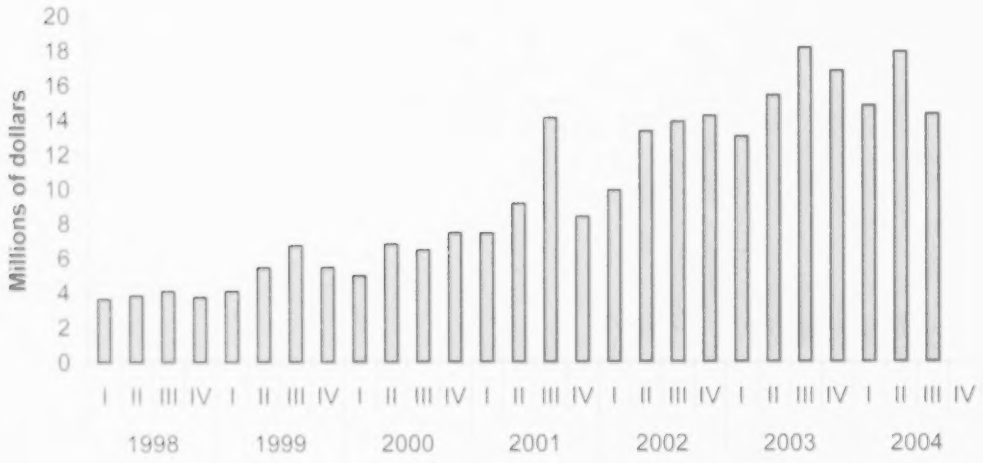
MANUFACTURING SHIPMENTS AND TRADE

Both manufacturing and trade have benefited from the strong economic growth of the past several years, much of which has been fuelled by the increasing influence of the diamond industry in the NWT's economic landscape. Indeed, in the case of trade, the link is direct: much of the NWT's manufacturing shipments consist of cut and polished diamonds. As the number of raw diamonds available for processing in the NWT has expanded, so too have the territory's manufacturing shipments.

Manufacturing Shipments

Manufacturing shipments, which totalled only $15 million in 1998, had grown to $63 million as of 2003. Figures for the fourth quarter of 2004 are not yet available, but, over the first three quarters of the year, shipments came to $47.0 million, versus $46.6 million during the same period the previous year. Total manufacturing shipments in 2004 are expected to be slightly higher than in 2003. Shipments are forecast to grow in 2005.

NWT Manufacturing Shipments, All Industries



Source: Statistics Canada

Wholesale Trade

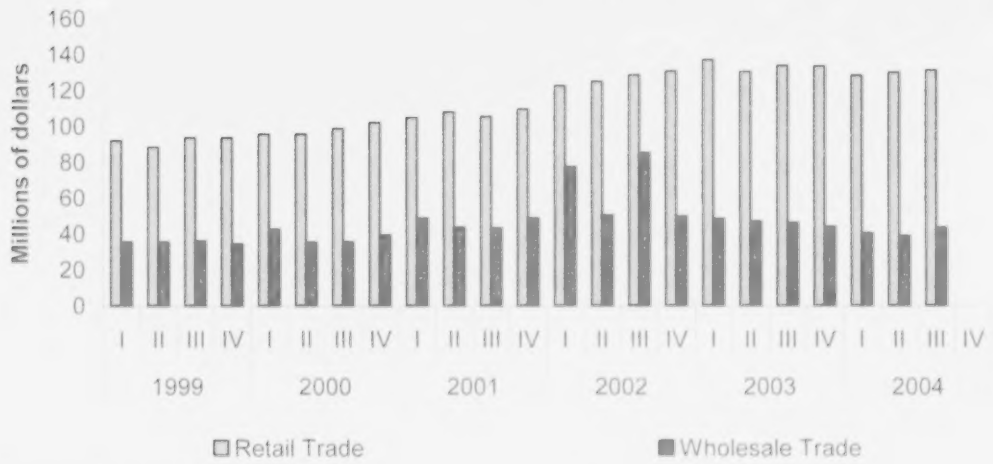
Wholesale trade has exhibited a close correlation with resource development and has been positively affected by the growth in the diamond mining sector in recent years. The value of trade fell by 30 per cent in 2003 due to the end of the construction phase at the second diamond mine in late 2002. For full year 2003, wholesale trade totalled $184.6 million. Figures for the fourth quarter of 2004 are not yet available, but, through the first three quarters of the year, wholesale trade equalled $122.4 million, down from the level of the same period in 2003, when trade amounted to $140.9 million.

Retail Trade

In recent years, retail trade has grown at rates in excess of those in the rest of Canada, driven by strong economic conditions in the NWT. The value of retail trade grew from $367.3 million in 1999 to $532.3 million in 2003 for cumulative growth over that period of 45 per cent. Through the first three quarters of 2004, retail trade, at $388.1 million, has been somewhat weaker than in the same period of 2003, when trade amounted to $399.5 million. Retail trade is expected to grow in 2005, as personal incomes and population are expected to continue to grow.

NWT Retail and Wholesale Trade

Total Sales (Seasonally Adjusted)



Source: Statistics Canada

RENEWABLE RESOURCE SECTOR

The renewable resource sector of the NWT economy is an important part of the territory's economy and provides valuable employment opportunities to many residents. Under the umbrella of the renewable resource sector, three specific areas – tourism, the commercial fishery and the fur harvest – are highlighted below.

Tourism

Tourism is an important part of the NWT's renewable resource sector. There are a number of opportunities yet to be fully explored including cultural tourism, diamond-based tourism and catering to the international tourist market.

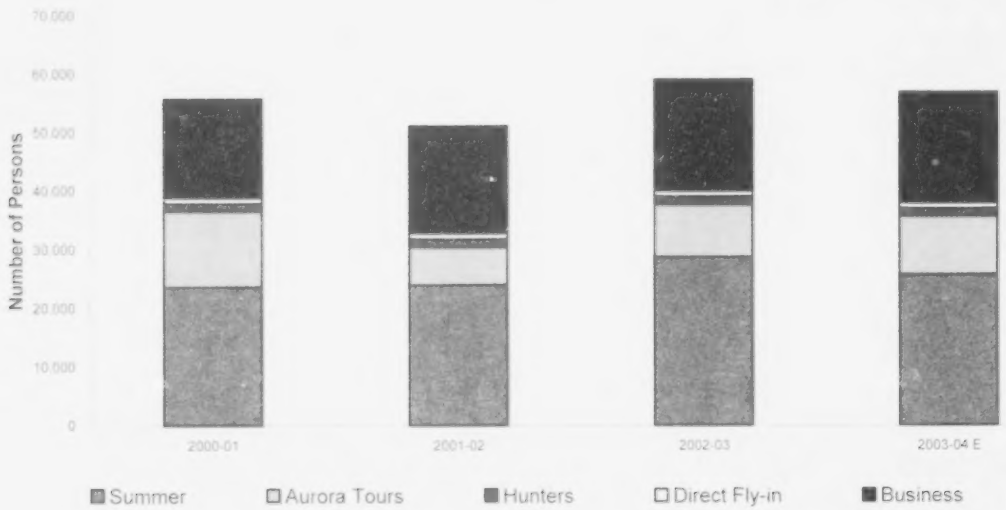
Over half of leisure visitors to the NWT come from other parts of Canada, primarily Alberta, British Columbia and Ontario. However, a lack of road infrastructure in the NWT remains an impediment to expansion, especially with regard to the growing recreational vehicle market.

The tourism industry endured a somewhat disappointing year in 2003-04, with data indicating that the number of visitors dropped by 5 per cent compared to 2002-03, from 40,100 visitors to 38,044 visitors. Spending by tourists in the NWT declined 3 per cent, from $50.8 million in 2002-03 to $49.5 million in 2003-04. However, if spending by the 19,000 business visitors are included, the NWT tourism industry contributes $90 million in direct spending annually to the NWT economy. Nevertheless, these numbers are much improved over 2001-02, when terrorist concerns and SARS caused a significant decline in visitors to the NWT.

Summer travellers and hunters continue to be the most important sources of tourism revenue for the NWT, capturing about 37 per cent each of the revenue generated. Aurora viewers bring in approximately 24 per cent of total revenues from tourism. However, in 2003-04, the summer travel visitors were 68 per cent, Aurora viewers were 26 per cent, and hunters were only 4 per cent of the total number of leisure visitors.

The Aurora market is the only tourism sector that showed an increase in both the number of visitors and the amount of money spent in 2003-04.The Aurora tour market brought almost 10,000 visitors to the NWT in 2003-04, an increase from their 2002-03 level of 9,000 persons. The other three categories of travellers – summer visitors, hunters and direct fly-in visitors – were either unchanged or declined from the 2002-03 levels, both in terms of the numbers of visitors and the amounts of money spent.

Visitors to the Northwest Territories



Source: Department of Resources, Wildlife and Economic Development
Note: The number of hunters who visited the NWT in 2003-04 is estimated

Commercial Fishery

The NWT's commercial fishery is a small but valued part of the territory's economic mosaic. According to the federal Department of Fisheries and Oceans, the fish harvest in 2002 amounted to 1,164 live weight tonnes and carried a value of $1.43 million. This volume of harvest is very similar to that obtained in 2000 and 2001, when catches totalled 1,173 and 1,152 live weight tonnes, respectively. The values of the harvests were also similar, at $1.39 million in 2000 and $1.58 million in 2001. Figures for 2003 and 2004 are not yet available.

Fur Harvest

The value of the 2003-04 fur harvest increased 8.1 per cent, from $751,000 in 2002-03 to $812,000, even though the total pelt harvest dropped from 31,848 in 2002-03 to 23,536 in 2003-04. The value of the pelts increased because of pricing changes for individual species and a shift in the amounts of different species that were harvested.

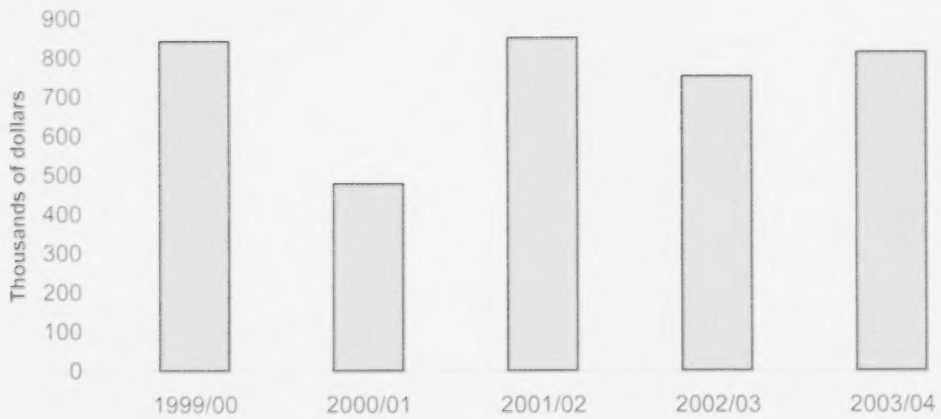
Both the size of the fur harvest and the prices realized at auction from the furs remain volatile. By either measure, the 2000-01 was the worst year over the 1999-00 to 2003-04 period, when the total number of pelts harvested was only 13,092 and the value of the furs was $477,000.

Marten and lynx are currently the most valuable species to NWT trappers, with the greatest shares of total revenue in both 2002-03 and 2003-04. Marten had almost a two-thirds share of total revenue in both years and lynx had a 10.9 per cent share in 2002-03 and a 13.3 per cent share in 2003-04.

On a per-pelt basis, the most valuable species in 2003-04, were grizzly bear ($1,221), polar bear ($1,019) and wolverine ($226). These results compare to 2002-03, when the three most valuable species, among those that were caught, were grizzly bear ($1,740), wolverine ($240) and tundra wolf ($216). No polar bears were caught in 2002-03.

The prospects for NWT trappers hinge critically, as always, on trends in the unpredictable world of fashion.

Total Value of NWT Pelts, Fiscal Years Ending June 30th



Source: Department of Resources, Wildlife and Economic Development

NWT NON-RENEWABLE RESOURCE DEVELOPMENT AND THE NATIONAL ECONOMY

Non-renewable resource development in the NWT contributes significantly to the economic welfare of the rest of Canada. However, although the NWT bears most of the costs associated with these development activities, the majority of the benefits flow to the rest of Canada.

Measured by value, Canada is already the third-largest producer of diamonds in the world, behind only Botswana and Russia, and Canada's entire diamond production comes from two mines in the NWT. Canada's third diamond mine will also be located in the NWT.

The three NWT mines are expected, over their lifetimes, to contribute $26 billion to Canada's GDP and $7.5 billion in total government revenue. Assuming current financial arrangements, the Conference Board of Canada estimates that of this $7.5 billion in government revenue, the net share to the GNWT will be only $260 million, or 3.5 percent.

Furthermore, the three mines are expected to create a cumulative 126,000 person-years of direct, indirect (secondary and support industry), and induced (created by the spending of labour income) employment. It is projected that more than half of this employment, or 71,000 person-years, will be created in the rest of Canada. The construction phases alone of the first two diamond mines created 2,500 person-years of direct employment and contributed some $2.5 billion to the national economy.

In addition to the cutting and polishing facilities established in Yellowknife, facilities for cutting and polishing also exist in British Columbia and Quebec. Moreover, with general jewellery facilities in existence in Vancouver, Calgary, Toronto and Montreal, jewellery industry jobs across a wide spectrum of activity could grow across southern Canada as a result of diamond production in the NWT. The NWT's proposal for a national diamond strategy would have significant positive benefits for the rest of Canada.

The primary beneficiaries of a Mackenzie Valley natural gas pipeline would be Canadians living outside of the NWT.

According to a 2004 report prepared by Wright Mansell Research Ltd., the thirty year pipeline project would, based on a natural gas price of US$4.00 per thousand cubic feet (mcf), add $58.8 billion to Canada's GDP; create total revenue for all levels of government in Canada of $15 billion, of which net federal revenue would be $13 billion, or 89 per cent of the total revenue to governments; and create 180,000 person-years of direct and indirect employment. Of this direct and indirect employment, it is projected that over 72 per cent would take place in southern Canada.

All Canadians would benefit from the 61 trillion cubic feet (National Energy Board estimate) of Beaufort Sea/Mackenzie Delta natural gas that would flow through the Mackenzie Valley pipeline to southern markets. The additional supply would help to check increases in the price of natural gas, saving Canadian consumers an estimated $350 million annually in fuel costs for each US10 cent per mcf restraining effect that the presence of the pipeline's gas supply might engender.

In 2003, the GNWT undertook a detailed assessment of the impacts of development on its expenditures in an attempt to understand and quantify the investment needed to prepare for and cope with the non-renewable development. The impacts of resource development are very wide ranging, from the need for improved highways to the need for more police to cope with higher crime rates. The study estimated that, over the next 20 years, the GNWT would experience a demand for $1.3 billion in increased expenditures. Taking into account the expected fiscal benefits – from the higher tax revenues and population growth – the net cost to the GNWT of current and planned projects is $400 million, most of which will be incurred in the next 10 years.

Over the coming years, Canadians living outside the NWT will receive the largest share of the benefits from non-renewable resource development activities in the NWT and other governments, particularly the federal government, will receive the majority of the government revenues generated by these activities. This mismatch between the expenditures induced by the projects and the revenues flowing to governments from NWT non-renewable natural resources development is inequitable.

FISCAL REVIEW

The 2004-05 Budget predicted deficits for the 2004-05 to 2006-07 fiscal years, despite revenue initiatives and expenditure restraint measures. The September and October 2004 First Ministers' Meetings in Ottawa, which resulted in additional funding for both Territorial Formula Financing and health care, helped turn forecast deficits into surpluses. However, even with increased federal transfers, the revenue initiatives and expenditure restraint measures announced in the 2004-05 Budget were, and still are, necessary to ensure that the Government of the Northwest Territories (GNWT) has the fiscal resources it needs to provide ongoing programs and services and to make capital expenditures in a fiscally responsible manner.

2003-04 FINAL RESULTS

Revenues 2003-04 were $871 million and expenditures were $936 million, leaving the GNWT with an operating deficit of $65 million. At the time of the 2004-05 Budget, the 2003-04 deficit forecast was $78 million. The $13 million reduction in the deficit was due to increases in revenue, primarily in the Formula Financing Grant.

2004-05 REVISED ESTIMATES

Revenues have increased $103 million from 2004-05 Main Estimates. The main reason is an increase of $88 million in the Formula Financing Grant. The federal decision not to rebase the Tax Effort Adjustment Factor for the 2004-05 Grant calculation along with the additional funding from the agreement on Territorial Formula Financing reached at the October 26, 2004 First Ministers' Meeting were the reasons for the Grant increase.

After adjustments for supplementary requirements, total 2004-05 expenditures are expected to be $14 million higher than budgeted in the 2004-05 Main Estimates. Unanticipated costs for forest fire fighting were one of the main reasons for the higher expenditures.

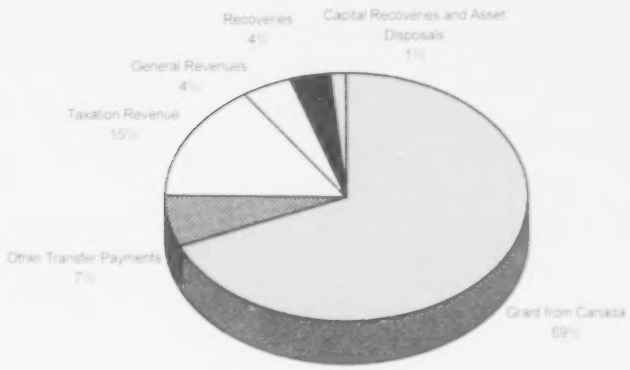
Increased revenues and tight control of expenditures have turned the $46 million deficit forecast in the 2004-05 Budget into an estimated $44 million surplus.

2005-06 BUDGET

Revenues

Total 2005-06 revenues are expected to increase $35 million to $1,055 million, an increase of 3.4 per cent from the 2004-05 Revised Estimates. The Formula Financing Grant is expected to increase by $21 million and own source revenues are forecast to increase by $14 million.

Total GNWT Revenues by Source
2005-06



The agreement reached at the October 26, 2004 First Ministers' Meeting on Equalization and Territorial Formula Financing sets the amount of the 2005-06 Territorial Formula Financing in federal legislation. Consequently, only one-third of the GNWT total revenues will be subject to change during 2005-06. However, because of the agreement, total revenues may be less stable than under previous Territorial Formula Financing calculations where changes in own source revenues were largely offset by changes in the Formula Financing Grant. This will not be the case in 2005-06.

Personal income tax revenues are forecast to decrease by $16 million from the 2004-05 revised estimates. This is due primarily to the January 1, 2005 increase in the Cost of Living Tax Credit and the tax rate decreases announced in the 2004-05 Budget.

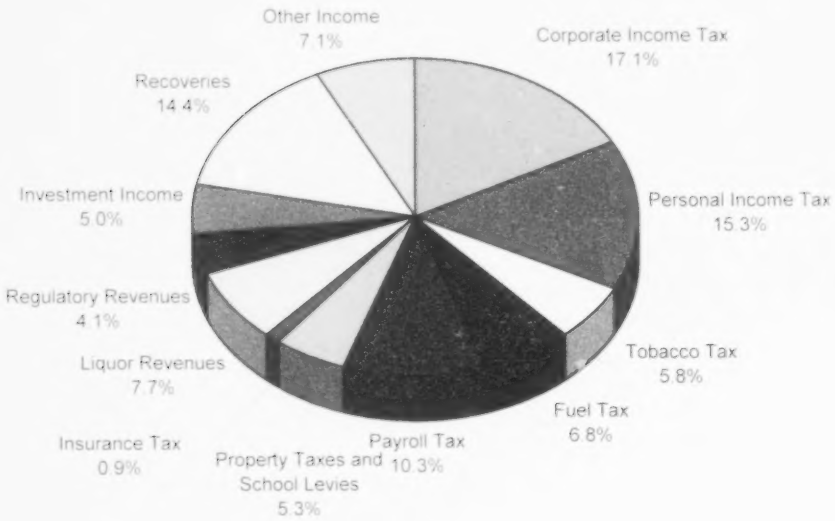
Corporate income tax revenues are forecast to decrease by $2 million from the 2004-05 Revised Estimates as forecasts of corporate income have been revised downward.

Payroll tax revenues are forecast to increase by $10 million, reflecting both the full year effect of increasing the payroll tax rate from 1 to 2 per cent effective January 1, 2005 and a forecast increase in wages and salaries.

Fuel tax, insurance tax, liquor revenues and property tax and school levies are all forecast to increase slightly in 2005-06. Tobacco tax revenues are forecast to decrease slightly due to a decline in per capita tobacco consumption.

Transfer payments, excluding the Territorial Formula Financing Grant, are forecast to decline by $1 million. This is because 2004-05 revenues included one-time Canada Health and Social Transfer Trusts of $5.9 million.

GNWT Own Source Revenues
2005-06



Operating Expenditures

Total operating expenditures in 2005-06 are projected to increase to $974 million, a $9 million from the 2004-05 Main Estimates. After estimates of supplementary requirements for possible expenditures, such as increased expenditures due to higher than anticipated fuel prices, and estimated appropriation lapses are included, total operations expenditures are projected to be $1,006 million in 2005-06.

The 2005-06 Budget includes funding for new initiatives of $16 million, as well as $20 million to address the increased costs of existing programs and services. However, these are substantially offset by $26 million in expenditure reductions.

Major new funding initiatives in 2005-06 include:

Developing a Strong Northern Voice and Identity

- $1.8 million for continued devolution and resource revenue sharing negotiations.
- $355,000 to support initiatives such as the development of the Northern Strategy.

Helping Promote Self Reliant, Healthy, Educated Northwest Territories Residents

- $895,000 for eight projects designed to demonstrate strategies for enhancing health and wellness at the community and/or regional levels.
- $907,000 for new public health units in the Sahtu, DehCho and Tłı̨chǫ regions.
- $403,000 for the Family Law Legal Aid clinic in Yellowknife.
- $208,000 to implement *Protection against Family Violence* legislation.
- $1.057 million to implement the third year of the Mental Health and Addictions Strategy.
- $662,000 for the Bachelor of Science Nursing Program at Aurora College.
- $727,000 for early childhood Aboriginal languages immersion programs.
- $150,000 for the Northwest Territories' Art Strategy.
- $1.4 million for ten new RCMP positions, including six positions assigned to the Rae, Tuktoyaktuk, Fort Providence and Yellowknife detachments, a three-person traffic unit with two officers in Hay River and one officer in Yellowknife, and a new dog and handler unit located in Yellowknife but serving the entire territory.

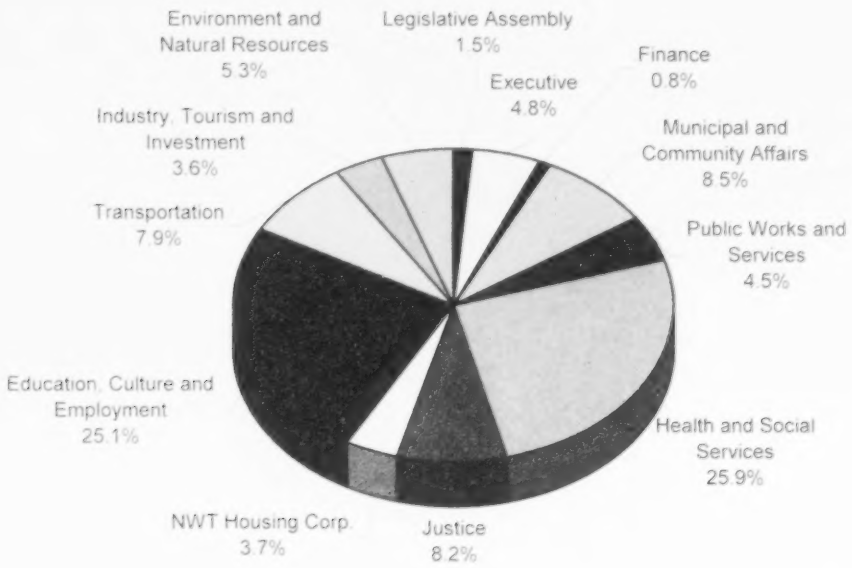
Encouraging Well-governed, Sustainable Communities

- Establishment of the Community Public Infrastructure plan to provide a funding base for infrastructure development in the communities. The Infrastructure Acquisition Plan will include an additional $16 million in 2006-07, $18 million in 2007-08 and $17 million in 2008-09 for non-tax base communities. To help these communities with the planning for this work, $1 million is provided in 2005-06. The Plan also includes $3 million annually starting in 2006-07 for tax-based communities.
- Implementation of an interim grant program for 2005-06 to flow property tax revenue to those communities that do not currently raise their own property tax revenues. This program will continue until community governments are granted full taxation authority on January 1, 2008.
- $125,000 to establish a Centre of Expertise for infrastructure financing and leveraging, which will work directly with communities who need technical assistance to find external infrastructure funding opportunities.

Creating a Diversified Economy

- $500,000 for a partnership program with the private sector to promote Northwest Territories tourism at Expo 2005 in Aichi, Japan.
- $486,000 in new funding for continuation of devolution and resource revenue sharing negotiations and research.

Operations Expenditures by Department
2005-06

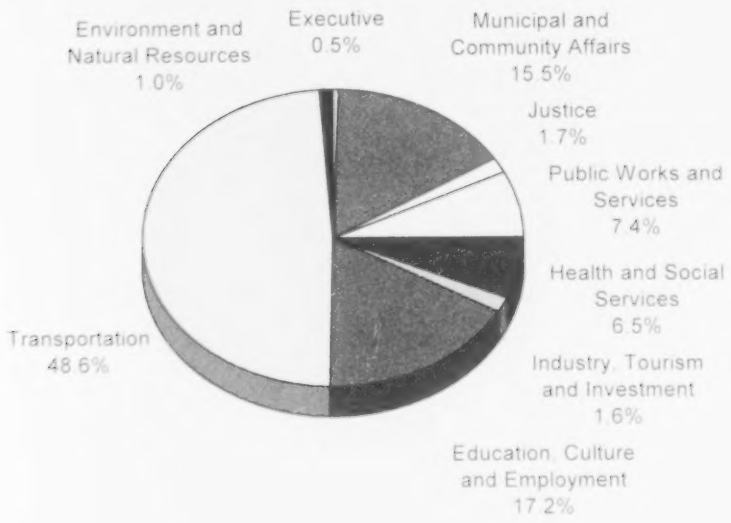


- $200,000 for additional resources to review prospecting permits for potential impacts on heritage resources due increased land use activity.
- $110,000 in additional funding to the Aurora Institute for increased licensing of research applications due to current resource development activity in the Northwest Territories.
- $120,000 for the Bureau of Statistics to provide support in assessing cumulative social and economic impacts of resource development and integrate these impacts with departmental strategies for the business planning process.

Protecting the Natural Environment

- $1.5 million over five years to implement the *NWT Protected Areas Strategy Action Plan*.
- $450,000 additional funding to address environment assessment and review impacts.
- $275,000 for the Bathurst Caribou monitoring program.
- $390,000 to address immediate environmental assessment and review requirements for the proposed Mackenzie Valley pipeline.
- $250,000 for two new regional Environmental Protection Officer positions.

Capital Investment Expenditures by Department
2005-06


Environment and Natural Resources 1.0%
Executive 0.5%
Municipal and Community Affairs 15.5%
Justice 1.7%
Public Works and Services 7.4%
Health and Social Services 6.5%
Industry, Tourism and Investment 1.6%
Education, Culture and Employment 17.2%
Transportation 48.6%

Infrastructure Investment Expenditures

Total infrastructure investment expenditures for 2005-06 are budgeted to be $116 million, which includes $106 million in capital assets and $11 million for infrastructure contributions to municipalities (included in departmental operating expenditures).

The major infrastructure investments included in the 2005-06 Infrastructure Acquisition Plan are:

- $3.3 million for community infrastructure including chip sealing and $2.5 million in water and sewer upgrades.
- $3.2 million for improvements in sewage disposal and solid waste sites.
- $4.9 million for upgrades to water treatment facilities.
- $6.6 million for improvements to hospitals and health care facilities, including $2.3 million in medical equipment investment.
- $6.2 million to build new schools in Hay River, Ndilo and Tulita.
- $2.6 million to replace the Sir Alexander Mackenzie School in Inuvik.
- $4.2 million for other school upgrades and renovations.
- $2.0 million for the last full year of renovations to the Prince of Wales Heritage Centre.
- $10 million for airports, including $2.9 million for runway, taxiway and apron rehabilitation at the Norman Wells airport.
- $40 million for highways, including $5.2 million for Mackenzie Winter Road bridges.

MEDIUM TERM OUTLOOK

The expenditure reduction measures taken from 2003-04 to 2005-06, along with the increases to Territorial Formula Financing in 2004-05 and 2005-06 achieved at the October 26, 2004 First Ministers' Meeting, mean that the GNWT is projecting operating surpluses to the end of the 2007-08 planning horizon. However, an over-payment in corporate income tax received in 2002-03 will have to be repaid in 2006-07. Although the GNWT will have to borrow part of the funds, it will be able to make the payment without exceeding its authorized borrowing limit of $300 million.

The $290 million repayment of corporate income tax required in 2006-07 is based on a unique set of circumstances. In 2002, the GNWT received $337 million in corporate income tax based on Finance Canada's estimate. Since the federal government bases estimates of corporate income tax on the latest actual prior year tax revenues, 2002 estimates were based on 2000 actual collections, which included a large one-time payment. Actual 2002 GNWT corporate income tax revenues (final determination received February 2004) were $40 million. The three-year repayment schedule includes two years of repayments based on population and the remaining balance of $290 million remitted in March 2007.

The Fiscal Responsibility Policy introduced in the 2005-06 Budget is meant to ensure that the GNWT maintains operating surpluses into the future so that funds are available for necessary capital investment.

Fiscal Framework Operations Summary
(millions of dollars)

	2003-04 Actuals	2004-05 Revised Estimates	2005/2006 Main Estimates	2006-07 Forecast	2007-08 Forecast
Revenues	893	1,035	1,055	1,090	1,133
Expenditures	(958)	(991)	(1,006)	(1,048)	(1,103)
Operating Surplus (Deficit)	(65)	44	49	42	30
Capital Investment Requirements	84	90	114	127	136
Corporate Income Tax Repayment	-	(5)	(30)	(290)	-
Accumulated Cash Surplus (Deficit)	25	214	250	(106)	(155)
Total Debt	(138)	(145)	(154)	(253)	(295)
Available Borrowing Capacity	162	155	146	47	5

Risks to Revenue Forecasts

All forecasts involve an element of uncertainty. The principal risk associated with the GNWT revenue forecast has historically been from the Formula Financing Grant, since it represents between 60 and 80 per cent of total GNWT revenues. However, the amounts for the 2004-05 and 2005-06 Formula Financing Grants will be established in federal legislation. Although there may be some slight changes to 2004-05 Formula Financing

revenues for prior year adjustments, all prior years will be finalized by March 31, 2005. There will be no adjustments to the 2005-06 Formula Financing Grant.

In the past, the Formula Financing Grant served to stabilize total GNWT revenues. If GNWT own source revenues decreased, the Formula Financing Grant would increase and if own source revenues increased, the Formula Financing Grant would decrease. For 2004-05 and 2005-06, any changes in revenues from estimates used to calculate the October 2004 estimate of the 2004-05 Formula Financing Grant will change total GNWT revenues but not the Formula Financing Grant.

The structure of Formula Financing arrangements after 2005-06 is not known. Total Territorial Formula Financing for the three territories is set at $2 billion in 2005-06 and will grow by 3.5 per cent a year. An Expert Panel will be established to make recommendations with respect to how total Formula Financing payments will be allocated among the three territories after 2005-06.

GNWT'S FISCAL STRATEGY

The fiscal strategy for the 2004-05 Budget and 2005-06 to 2007-08 Planning Process guidelines were established as a reaction to the fiscally unsustainable situation that the GNWT was facing. It was clear at the beginning of 2004-05 that growth in expenditures was far exceeding revenue growth and the GNWT's $300 million authorized borrowing limit would be exceeded in 2006-07. Consequently, on the revenue side, the GWNT introduced tax rate increases, continued efforts to restore the adequacy of Territorial Formula Financing, and continued discussions with the federal and Aboriginal governments for devolution of resource revenues. On the expenditure side, $15 million in expenditures reductions were required in 2004-05 and expenditure growth in 2005-06 was limited to $20 million in forced growth and new initiatives. Any new initiatives or critical forced growth above the $20 million in 2005-06 would be undertaken by reducing expenditures in other areas.

Since the 2004-05 Budget, GNWT revenue projections have changed dramatically and the operating deficits projected to 2006-07 are now surpluses. However, the structure of Territorial Formula Financing, which makes up 70 per cent of GNWT total revenues, is uncertain after 2005-06. In addition, devolution negotiations for a share of Northwest Territories revenue resources are not proceeding as quickly as expected.

Despite the improvement in the GNWT financial situation, the uncertainty in revenues after 2005-06 means that planning assumptions remain the same and the expenditure reductions announced in the 2004-05 Budget continue. To ensure that the fiscal situation at the beginning of 2004-05 does not reoccur, the GNWT has introduced the Fiscal Responsibility Policy.

Fiscal Responsibility Policy

The GNWT's fiscal strategy for 2005-06 and the 2006-07 to 2008-09 Business Planning Process will be governed by the Fiscal Responsibility Policy. This Policy provides the guidelines for debt and deficit limits and includes accountability measures to make the GNWT's financial management transparent and open to public scrutiny. The Policy framework creates a coordinated strategy for responsible spending, borrowing and debt repayment.

Under this Policy, the GNWT will only borrow for infrastructure investments, self-liquidating investments, and repayable loan programs. The total GNWT debt will be

considered affordable as long as debt servicing payments (principal and interest) are no greater than 5 per cent of total revenues. (Debt includes lines of credit with banks, long-term debentures, bond issues and mortgages and capital leases but does not include loan guarantees, trade payables and obligations to employees, operating leases, and multi-year contracts for goods and services not yet received.) If debt servicing payments exceed 5 per cent of total revenues, then operating surpluses must be generated in the following two years to permit principal repayments that will decrease the debt servicing payments to 5 per cent by the third year. The GNWT will be accountable for its debt management by adopting performance criteria to ensure that total debt does not exceed the GNWT's ability to repay it.

Significant fiscal strategy guidelines included in the Policy are as follows.

- Operating surpluses will be maintained at a level sufficient to provide the cash required to finance 50 per cent of capital investment and meet debt servicing payments. A maximum 50 per cent of capital investments will be funded with long-term debt. The GNWT will need operating surpluses to fund capital investments.
- The GNWT will borrow for infrastructure (capital and capital leases), self-liquidating investments and repayable loan programs but not for operating purposes.
- Infrastructure debt will be repaid within 20 years, or over the useful life of the asset, if less.
- Debt for self-liquidating investments will be repaid through the new revenues generated from the investment.
- Repayable loan program debt will be repaid from cash generated from the loan recipient repayments plus interest.
- The GNWT will be accountable for its fiscal stewardship through established debt management performance that is realistic and achievable and through performance criteria identified by financial policy.

Implementing the financial policy for budget and debt management included obtaining a credit rating. Moody's Investors Service has given a credit rating of Aa3 to the GNWT. The next step will be to make a formal submission to the federal government asking that the arbitrary $300 million borrowing limit be replaced with a limit based on sound fiscal measures.

REVENUE CHANGES

Risk Capital Investment Tax Credit

The NWT Risk Capital Investment Tax Credit program will be re-introduced in 2005. The credit was introduced in 1998 to provide an additional source of risk capital for Northwest Territories business and economic development and was cancelled March 31, 2004. The credit gives Northwest Territories' taxpayers an incentive to invest risk capital in Northwest Territories' businesses.

The program will make available $2 million in tax credits in each of the next three years. In order to increase the uptake of the program, the Departments of Finance and Industry, Tourism and Investment will work to make information on the program more available.

October 26, 2004 First Ministers' Meeting – Changes to Federal/Territorial Fiscal Arrangements

First Ministers met October 26, 2004 to discuss Equalization and Territorial Formula Financing as a follow-up to their September 13-15, 2004 meeting on health care funding. The final outcome could mean significant changes to the design of Territorial Formula Financing.

The Territorial Formula Financing Grants for 2004-05 and 2005-06 will be set in federal legislation and were calculated as follows.

- The total 2004-05 Territorial Formula Financing Grant for the three territories will be a floor of $1.9 billion. The difference between the October 2004 estimate value and the floor was allocated based on each territory's share of the total 2004-05 October estimate of the Territorial Formula Financing Grants. Each territory will also receive prior year adjustments based on the most recent data available as of March 31, 2005.

- The total 2005-06 Territorial Formula Financing Grant is a fixed amount of $2 billion, an increase of 5.3 per cent from the 2004-05 amount. The total $2 billion amount was allocated based on each territory's share of the average 2002-03 to 2004-05 Territorial Formula Financing Grant from October 2004 estimates. There will be no prior year adjustments in 2005-06.

- These changes will simplify the calculation of the 2004-05 and 2005-06 Territorial Formula Financing Grant. Any other calculations in 2004-05 will relate to prior year adjustments. There will be no other calculations necessary for the 2005-06 Territorial Formula Financing Grant.

After 2005-06, the total Territorial Formula Financing will be escalated at a rate of 3.5 per cent per year, with a review of the adequacy of the escalator after 5 years. An Expert Panel on Equalization and Territorial Formula Financing will be established to provide recommendations on the allocation of the fixed amounts and is scheduled to release its recommendations in late 2005.

Devolution/Resource Revenue Sharing – Northern Strategy and Federal Government Commitments

The federal government currently receives all royalties from non-renewable resource activities in the Northwest Territories. Until recently, the territorial tax revenues generated by resource sector activity were offset by reductions in the Formula Financing Grant. The design of the Formula Financing Grant after 2005-06 is unknown, however, under recent financial arrangements, the federal government's share of total royalty and tax revenues from resource developments after offsets is over 92 per cent. The GNWT receives less than 8 per cent of net revenues from non-renewable resource activities in the Northwest Territories.

Resource revenue sharing involves issues of fairness and adequacy. The GNWT is incurring increased costs due to resource development but only benefits through increased tax revenue that has been partially offset by the Formula Financing Grant. Although many Northwest Territories residents benefit from improved economic activity, they also pay a price through the stresses caused by rapid resource development.

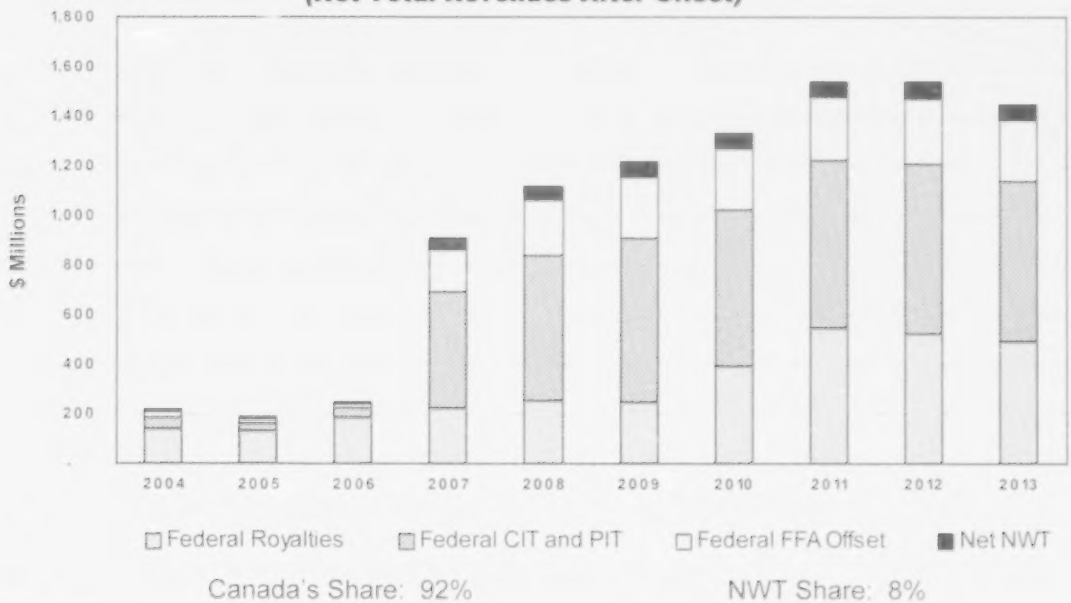
Furthermore, the larger the offsets of resource revenues against the Formula Financing Grant, the less resource revenues will be able to address the GNWT's fiscal situation. The federal government has included the treatment of resource revenues in the mandate of the Expert Panel on Equalization and Territorial Formula Financing. The GNWT will be making submissions to the Expert Panel on Equalization and Territorial Formula Financing that address these issues.

On December 14, 2004, the federal and three territorial governments released the framework that will be used to develop a Northern Strategy. The Northern Strategy is meant to make a real difference in the quality of life of Northerners and in the capacity of Northerners to manage their own affairs. The framework includes a draft vision for the North, along with some suggested principles to guide the development of the strategy and a set of possible goals and objectives to realize the vision. Joint consultations will be held to provide the opportunity for Northerners to provide input. All four governments have committed to involving Aboriginal governments and organizations in the process.

Discussions have been taking place with Canada concerning devolution of resource revenues to the GNWT and NWT Aboriginal governments, including offsets that would be made against federal transfer payments. While the Prime Minister committed to significant progress in devolution and resource revenue sharing talks by the Spring of 2005, given the current timetable for discussions leading to a final agreement and implementation of legislation, it is not expected that new revenues from devolution will occur before 2007.

At the launch of the Northern Strategy, the GNWT secured $40 million to assist in addressing urgent community needs.

Federal and NWT Net Royalty and Tax Projections from Anticipated Resource Developments Under Current Fiscal Arrangements
(Net Total Revenues After Offset)



Summary of Operations

(thousands of dollars)

	2005-2006 Main Estimates	2004-2005 Revised Estimates	2004-2005 Main Estimates	2003-2004 Actuals
REVENUES	1,054,664	1,035,246	931,609	893,588
OPERATIONS EXPENSE				
Compensation and Benefits	186,296	186,769	185,890	188,475
Grants and Contributions	443,404	481,688	467,562	463,850
Other Expenses	294,893	276,237	265,305	262,766
Amortization	49,717	47,755	46,484	43,863
TOTAL OPERATIONS EXPENSE TO BE VOTED	974,310	992,449	965,241	958,954
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS	80,354	42,797	(33,632)	(65,366)
PETROLEUM PRODUCTS REVOLVING FUND - NET REVENUE	-	-	-	2
ESTIMATED SUPPLEMENTARY REQUIREMENTS				
Health Reform Fund	(4,700)	(2,000)		
Operations Expenditures	(35,000)	(5,000)	(20,000)	-
ESTIMATED APPROPRIATION LAPSES				
Regular Operating Activities	8,000	8,000	8,000	-
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	26,248	35,659	38,428	56,472
Expenditures	(26,248)	35,659)	(38,428)	(56,472)
OPERATING SURPLUS (DEFICIT) FOR THE YEAR	48,654	43,797	(45,632)	(65,364)
ACCUMULATED SURPLUS AT THE BEGINNING OF THE YEAR	738,877	695,080	681,904	760,444
ACCUMULATED SURPLUS AT THE END OF THE YEAR	787,531	738,877	636,272	695,080

Summary of Revenues

(thousands of dollars)

	2005-2006 Main Estimates	2004-2005 Revised Estimates	2004-2005 Main Estimates	2003-2004 Actuals
GRANT FROM CANADA	**724,280**	**703,363**	**614,877**	**853,568**
TRANSFER PAYMENTS	**70,678**	**71,592**	**68,171**	**60,869**
TAXATION REVENUE				
Personal Income Tax	39,837	56,268	57,376	51,569
Corporate Income Tax	44,422	46,330	31,750	(224,537)
Tobacco Tax	15,044	15,060	15,406	15,242
Fuel Tax	17,679	17,473	17,804	17,271
Payroll Tax	26,798	16,249	17,377	13,766
Property Tax and School Levies	13,812	13,746	13,912	10,092
Insurance Taxes	2,250	2,150	2,150	2,880
	159,842	**167,276**	**155,775**	**(113,717)**
GENERAL REVENUES				
Revolving Funds Net Revenue	19,920	19,347	20,853	20,028
Regulatory Revenues	10,756	10,705	11,334	11,653
Investment Income	13,109	7,962	6,530	6,425
Other General Revenues	3,116	3,139	2,290	1,708
	46,901	**41,153**	**41,007**	**39,814**
OTHER RECOVERIES				
Lease and Accommodations	1,220	1,221	1,221	1,513
Service	2,182	1,673	1,533	1,333
Program	30,499	30,550	31,802	30,668
Commodity Sales	444	446	386	91
Insurance Proceeds	60	60	-	747
Other Miscellaneous Recoveries	120	120	132	231
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	3,326
	37,525	**37,070**	**38,074**	**37,909**
GRANTS IN KIND	**411**	**890**	**396**	**1,784**
CAPITAL				
Other	1,615	-	100	271
Deferred Capital Contributions	13,412	13,902	13,209	13,090
	15,027	**13,902**	**13,309**	**13,361**
TOTAL REVENUES	**1,054,664**	**1,035,246**	**931,609**	**893,588**

Summary of Operations Expenditures By Department

(thousands of dollars)

	2005-2006 Main Estimates	2004-2005 Revised Estimates	2004-2005 Main Estimates	2003-2004 Actuals
Legislative Assembly	14,477	15,078	14,963	14,381
Executive	47,195	49,922	49,590	51,661
Finance	7,900	7,779	7,354	6,975
Municipal and Community Affairs	82,504	81,121	77,397	77,496
Public Works and Services	44,285	44,561	44,639	44,298
Health and Social Services	252,706	251,924	246,978	245,492
Justice	79,803	80,817	79,344	77,664
NWT Housing Corporation	35,956	36,795	35,135	37,532
Education, Culture and Employment	245,003	255,397	247,326	245,321
Transportation	77,393	77,294	76,940	73,493
Industry, Tourism and Investment	34,973	34,722	33,240	34,202
Environment and Natural Resources	52,115	57,039	52,335	50,439
TOTAL OPERATIONS EXPENDITURES	**974,310**	**992,449**	**965,241**	**958,954**

Summary of Capital Investment Expenditures by Department

(thousands of dollars)

	2005-2006 Main Estimates	2004-2005 Revised Estimates	2004-2005 Main Estimates	2003-2004 Actuals
Legislative Assembly	-	215	215	-
Executive	500	250	197	1,288
Finance	-	-	-	-
Municipal and Community Affairs	16,437	15,033	7,488	6,425
Public Works and Services	7,781	5,509	3,220	2,216
Health and Social Services	6,875	17,565	9,930	9,387
Justice	1,780	1,950	645	18,866
NWT Housing Corporation	-	-	-	-
Education, Culture and Employment	18,191	18,535	9,609	11,116
Transportation	51,376	52,923	47,752	32,065
Industry, Tourism and Investment	1,736	1,499	937	1,037
Environment and Natural Resources	1,085	2,379	1,266	1,224
TOTAL CAPITAL INVESTMENT EXPENDITURES	**105,761**	**115,858**	**81,259**	**83,624**

Summary of Changes in Capital Assets and Amortization

(thousands of dollars)

	2005-2006 Main Estimates	2004-2005 Revised Estimates	2004-2005 Main Estimates	2003-2004 Actuals
BEGINNING OF THE YEAR				
Cost of Capital Assets in Service	1,485,961	1,381,404	1,380,737	1,304,551
Accumulated Depreciation	(539,521)	(491,633)	(493,693)	(448,381)
Net Book Value	946,440	889,771	887,044	856,170
CHANGES DURING THE YEAR				
Capital Assets Put into Service	94,323	104,981	116,606	80,527
Disposals	-	(424)	-	(3,385)
Amortization	(49,717)	(47,888)	(46,629)	(43,900)
NET BOOK VALUE OF CAPITAL ASSETS IN SERVICE AT THE END OF THE YEAR	**991,046**	**946,440**	**957,021**	**889,412**
Work in Progress on Multi-year Projects	97,086	77,648	76,822	91,411
TOTAL NET BOOK VALUE AND WORK IN PROGRESS	**1,088,132**	**1,024,088**	**1,033,843**	**980,823**
CALCULATION OF CAPITAL INVESTMENT				
Capital Investment per Infrastructure Acquisition Plan	105,761	115,858	81,259	83,624
Supplementary Reserve	12,000	5,000	12,000	-
Carry-over of Appropriations from the Previous Year	26,000	-	27,000	-
Estimated Appropriations for Incomplete Projects Continued in Subsequent Year	(26,000)	(26,000)	(26,000)	-
Estimated Appropriation Lapses	(4,000)	(4,000)	(4,000)	-
Capital Investment Expenditures	**113,761**	**90,858**	**90,259**	**83,624**
CALCULATION OF ASSETS PUT INTO SERVICE				
Work in progress, beginning of the year	77,648	91,771	103,169	88,674
Capital Investment Expenditures	113,761	90,858	90,259	83,624
Less work in progress, end of the year	(97,086)	(77,648)	(76,822)	(91,771)
Assets put into service	**94,323**	**104,981**	**116,606**	**80,527**

Summary of Cash Flows

(thousands of dollars)

	2005-2006 Main Estimates	2004-2005 Revised Estimates	2004-2005 Main Estimates	2003-2004 Actuals
OPERATING TRANSACTIONS				
Cash Received From:				
Canada	925,500	1,034,607	942,315	888,242
Other Revenues	188,225	162,958	161,247	224,715
	1,113,725	**1,197,565**	**1,103,562**	**1,112,957**
Cash Paid For:				
Operations Expenses	(955,765)	(927,038)	(914,540)	(892,620)
Projects Performed for Others	-	-	-	(144,407)
Cash Provided By (Used For) Operating Transactions	**157,960**	**270,527**	**189,022**	**75,930**
CAPITAL TRANSACTIONS				
Capital Investment (current year)	(108,994)	(87,051)	(86,477)	(84,746)
Capital Investment (prior year)	(3,807)	(3,504)	(3,504)	-
Proceeds from Disposal of Capital Assets	-	-	-	2,992
Capital Contributions Received and Deferred	26,832	21,595	26,650	11,217
Cash Provided By (Used For) Capital Transactions	**(85,969)**	**(68,960)**	**(63,331)**	**(70,537)**
INVESTING TRANSACTIONS				
Designated Cash and Investments Purchased	-	-	-	2,054
Loans (Net of Repayments)	(3,650)	(4,480)	(4,480)	(3,383)
Cash Provided By (Used For) Investing Transactions	**(3,650)**	**(4,480)**	**(4,480)**	**(1,329)**
FINANCING TRANSACTIONS				
Repayment of Capital Lease Obligations	(2,641)	(2,641)	(2,732)	(801)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**65,699**	**194,446**	**118,479**	**3,263**
Repayment of Corporate Income Tax Overpayment	(29,672)	(5,161)	(5,161)	-
Cash and Cash Equivalents at the Beginning of the Year	214,244	24,959	(41,986)	21,696
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**250,272**	**214,244**	**71,332**	**24,959**

Summary of Total Debt and Estimated Borrowing Capacity

(thousands of dollars)

	2005-2006 Main Estimates	2004-2005 Revised Estimates	2004-2005 Main Estimates	2003-2004 Actuals
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**250,272**	**214,244**	**71,332**	**24,959**
GUARANTEED DEBT				
NWT Power Corporation	(101,976)	(91,797)	(95,531)	(84,693)
NWT Energy Corporation	(22,635)	(23,003)	(23,003)	(23,337)
NWT Housing Corporation	(28,985)	(29,751)	(29,758)	(30,485)
TOTAL GUARANTEED DEBT	**(153,596)**	**(144,551)**	**(148,292)**	**(138,515)**
TOTAL (DEBT) SURPLUS	**(153,596)**	**(144,551)**	**(148,292)**	**(138,515)**
AUTHORIZED BORROWING LIMIT	**300,000**	**300,000**	**300,000**	**300,000**
AVAILABLE BORROWING CAPACITY	**146,404**	**155,449**	**151,708**	**161,485**

Any further guarantees of NWT Power Corporation Debt may require a review of the GNWT's overall borrowing capacity with the Government of Canada.

Provincial and Territorial Tax Rates as of January 24, 2005

	Combined Top Marginal PIT rate [a] (%)	Retail Sales Tax (%)	Fuel Tax [b] Gas (¢/litre)	Fuel Tax [b] Diesel (¢/litre)	Tobacco Tax on Cigarettes ($/carton) [c]	Payroll Tax [d] (%)	Corporate Income Tax Small (%)	Corporate Income Tax Large (%)	Capital Tax [e] (%)
Northwest Territories	43.05	-	10.7	9.1	42.00	2.00	4.0	14.0	-
Nunavut	40.50	-	6.4	9.1	31.20	1.00	4.0	12.0	-
Yukon	42.40	-	6.2	7.2	26.40	-	4.0	15.0	-
British Columbia	43.70	7.0	14.5	15.0	35.80	-	4.5	13.5	0/3.0
Alberta	39.00	-	9.0	9.0	32.00	-	3.0	11.5	-
Saskatchewan	44.00	7.0	15.0	15.0	35.00	-	5.0	17.0	0.6/3.25
Manitoba	46.40	7.0	11.5	11.5	35.00	2.15	5.0	15.0	0.5/3.0
Ontario	46.41	8.0	14.7	14.3	23.45	1.95	5.5	14.0	0.3/0.6
Quebec	48.22	7.5	15.2	16.2	20.60	4.26	8.9	8.9	0.6/1.45
New Brunswick	46.84	8.0	14.5	16.9	23.50	-	2.5	13.0	0.3/3.0
Nova Scotia	48.25	8.0	15.5	15.4	31.04	-	5.0	16.0	0.6/4.0
Prince Edward Island	47.37	10.0	17.0	16.5	34.96	-	7.5	16.0	0/5.0
Newfoundland	48.64	8.0	16.5	16.5	32.00	2.00	5.0	14.0	0/4.0
Weighted average [f]	45.75	6.9	14.1	14.3	26.49	1.88	5.8	12.7	

Notes:

(a) Combined Federal-Provincial/Territorial highest personal income tax rates in effect for the 2004 tax year. The NWT rate will rise to 43.05% on January 1, 2005.

(b) Quebec, New Brunswick, Nova Scotia and Newfoundland apply sales tax to fuel. Most provinces have separate tax rates for on-highway and off-highway gasoline. The NWT's off-highway gasoline tax rate is 6.4 cents/litre.

(c) Saskatchewan, Manitoba, New Brunswick, Nova Scotia and Newfoundland apply sales tax to tobacco products.

(d) The NWT and Nunavut levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/or the rates vary depending on the payroll size.

(e) Capital tax rates are for large corporations and for financial institutions in the order shown. The tax bases are different for different types of companies.

(f) Average weighted by provincial/territorial populations at July 1, 2004.